

*by the same author*

THE POPULIST MOVEMENT  
IN THE UNITED STATES

LENIN ON THE AGRARIAN  
QUESTION

WHY FARMERS ARE POOR

RULERS OF AMERICA

LABOR AND COAL

# The Nature of Capitalism

*Anna Rochester*

LIBRARY  
THE UNIVERSITY OF TEXAS  
AT AUSTIN  
Brownsville, Tx

UTD LIBRARY

2601 N. FLOYD RD. RICHARDSON, TX 75080



INTERNATIONAL

WORKERS, NEW YORK

COPYRIGHT, 1946, BY  
INTERNATIONAL PUBLISHERS CO., INC.  
PRINTED IN THE U.S.A.



*This book is a revised edition of the  
writer's earlier Capitalism and Progress.*

## CONTENTS

<i>Foreword</i>	7
I Our Roots in the Past	9
II What Is Capitalism?	17
III Producing for Sale: What Is Value?	25
IV Workers Produce More Than They Receive	31
V How Surplus Value Is Distributed	40
VI Accumulating Capital	52
VII Crises	60
VIII Monopoly and Imperialism	66
IX Fascism or Democracy?	80
X Socialism: The Next Step	87
<i>Reference Notes</i>	93
<i>Index</i>	95

## FOREWORD

Capitalism grew out of simpler and earlier forms of economic life. (And when we speak of "economic" life we are merely using the old word which means the production and distribution of goods and services.) Capitalism developed without rational guidance as economic life became more complex and every man sought to satisfy his own individual interest without group regulation or control. It became a tremendous force for human progress, increasing the productivity of our labor, stimulating the pursuit of knowledge and scientific research, and laying the foundations for the broad human groups which we know as democratic nations. But at the same time, capitalism has included within itself serious inner contradictions and genuine conflicts of class interest.

The true source of these contradictions and conflicts was laid bare by Karl Marx and Frederick Engels about a hundred years ago. Since then, as capitalism has matured, exploitation of the working class has been intensified and capitalist contradictions have been enormously sharpened. In spite of the workers' organized efforts to win higher wages, to resist overwork, and to win a measure of security against unemployment, the gap has grown wider, in the capitalist world, between the poverty of the workers and the wealth of the capitalists.

The work of Marx and Engels has been carried forward and further developed, and their greatest followers, Lenin and Stalin, have led in creating a great socialist country. Sharp controversy continues between the defenders of capitalism and those who look to socialism as the only solution for the ever more serious problems of our capitalist economy. In the United States and Great Britain, this conflict has not reached the stage of revolutionary crisis. The majority of Americans do not yet desire a socialist economy for themselves, but the war has made plain to

all the devotion of the Soviet people to their motherland and the effectiveness of their socialist industry and collective agriculture.

It is peculiarly important at this time to understand the nature of our class relationships and of the contradictions which are inseparable from a capitalist economy. This little volume attempts to state certain basic principles set forth by the great socialist teachers and leaders and to review briefly in the light of these principles the course of our capitalist development hitherto.

## I. OUR ROOTS IN THE PAST

In the long, slow progress of mankind, human beings have had many different ways of providing themselves with food and shelter and clothing. Always there has been some group existence, some form of working together to produce the necessities of life. But the ways in which production has been carried on and the ways in which the product has been distributed among individual people have developed and changed even within the brief span of centuries for which written records are available.

To understand our present American world of rich and poor we must know something of the rich and poor in the early colonial settlements and in the Europe from which the settlers came. These settlers represented almost every sort of person in the old countries: poor artisans and homeless laborers, peasants escaped from serfdom or driven from the land, traders and sea captains, refugees from religious or political persecution, and adventurers from some feudal "family" who wanted to obtain the new kind of wealth piled up by successful merchants.

England and western Europe were still in the sixteenth and seventeenth centuries going through a period of great upheaval and change. It is a long story which varies from one country to another in detail and in timing. But the broad underlying pattern is fairly simple. Feudal power, based on serf labor and the control of land, was declining. A new power was rising, based on the wealth of traders and money-lenders and the owners of workshops and manufactories.<sup>1</sup>

By the fifteenth century Europe had a vigorous commercial life. Free artisans, clustered in the trading centers and organized in their self-governing guilds and journeymen's societies, had a more independent existence than peasants on the land. But as trading increased and markets widened, the artisans clashed with the money power based on trade. Little by little, a new

"manufacture" was developed with merchant capital and laid the foundation for the industrial capitalism of the nineteenth century.

In England, the breakdown of serfdom had been speeded by the landowners' desire to turn peasant farms into sheep walks. For the landlords wanted to gather in riches from selling wool to the Flemish weavers across the channel in the Netherlands. Revolts at the end of the fourteenth century had failed to win release and freeholdings for the serfs, but a hundred years later the growth of the wool trade began to free the English serfs the hard way. Driven from the fields which they had cultivated and which the landlords were turning into sheep pastures, increasing thousands of English peasants found themselves destitute, without land and without employment. Even many of the independent farmers, the yeomen who had survived in England when feudal conquerors swept over the island, also lost their land and wandered without a means of livelihood.

The rising merchant class and their king Henry VIII (who ruled from 1509 to 1547) had meantime carried through a break with the pope which made the "established church" in England independent of the Roman Catholic hierarchy. The king's quarrel with the pope began over Henry's determination to divorce one wife and marry another, but there were broad economic and political issues involved. Confiscation of the immense landed property of the Catholic Church opened the way to a new land-owning class whose interests were centered in money wealth and who drove most of the hereditary sub-tenants off the land. "The legally guaranteed property of the poorer folk in a part of the church's tithes was tacitly confiscated."<sup>2</sup> All this marked another phase of England's progress from feudalism toward a modern business world.

Other conflicts developed as the rising merchant class and the town artisans demanded parliamentary power. And tied in with these political struggles between the "commoners" and the landed aristocracy were popular religious movements of revolt against the official English church. To the Pilgrims, who in

1620 began the settlement of the New England colonies, their independent religion was one phase of a broad political and economic struggle against the landed aristocracy.

While England and the Netherlands—her business neighbor and rival on the mainland—were leading in the new industrial development, Portugal and Spain were taking the lead in exploitation of the new world which Columbus had discovered. Their monarchs and traders and sea captains were all hungry for gold and silver. Spain sent its conquerors (*conquistadores*) to take possession of lands in Central and South America which promised precious metals. On the basis of slavery, they built an American empire. The Mayas, Incas, Aztecs, and others in the mountains of Mexico and South America had their own highly developed civilizations, but the Spanish conquerors subdued them and robbed them and set them to work in the mines. As the native peoples died from cruel exploitation, Negro slaves were brought in to replace them.

From Peru to Florida, the Spaniard had explored and claimed possession long before the English began to colonize.

Less developed than the peoples of the interior were the Indians on the islands of the Caribbean and along the Atlantic coasts. When the Spanish settlers drove them to labor in the tropical fields, these Indians also sickened and died. Portuguese ships had been carrying Negro slaves from Africa to the fields of southern Portugal for half a century before Columbus crossed the ocean. In 1510 the first shipload of Negro slaves had been carried across the Atlantic and landed on a West Indian island.

Traffic in slaves was highly profitable, and English sea captains in the sixteenth century began to encroach upon the monopoly claimed by the Spanish and Portuguese in this bloody trade. The Spanish-Portuguese power in Europe was undermined by the British defeat of the Spanish Armada in 1588 and by the successful revolt of the Netherlands from Spanish control. Their leadership in the slave trade passed to the English and the Dutch. It became an important source of wealth to the merchant class of those two countries.

More than a hundred years after Columbus and Cabot, the English and the Dutch began to colonize in North America. The settlers were true children of the mercantile period. In their first years they faced hardships and difficulties which threw them entirely on their own resources. But even in the midst of this struggle for subsistence, the colonists were utilizing the products of trade. Many of them would continue to grow their own food and weave their own cloth and even tan their own leather, but on this foundation of self-sufficiency they expected, from the beginning, to build a trade economy.

The first English colonies which endured on the mainland of North America were led by quite different groups and were sharply contrasted in their way of life.

To Virginia there came, in 1607, three shiploads of men financed by a joint stock company. These settlers and those who followed shortly afterward ranged from poor aristocrats to released prisoners, with a few wealthy adventurers who intended to manage the affairs of the colony. The settlers had great difficulty in surviving the first few years, and the colony brought no profits to the London Company which had financed the voyage. But after some ten years of hardship in which the settlers found a bare subsistence, while they exported a little lumber, the colony began successful production of tobacco. This brought good prices in the English market. Then those who had considerable land, and sufficient labor at their disposal for the intensive cultivation which tobacco required, were able rapidly to accumulate wealth. The colony became largely dependent on the exchange of tobacco for purchased goods.

Virginia in 1619 received the first Negro bond-servants brought to the British colonies on the North American mainland, but until the end of that century slavery remained a minor source of labor power. Throughout the earlier decades, the larger landholders could obtain practically all the labor they could profitably employ from white indentured servants shipped over from England. Some of these were sent from the prisons, which

were filled to overflowing because of the destitution in the English towns. Most of the contract servants were poor men who voluntarily bound themselves for a term of unpaid service, because they looked forward to independent opportunity on the land when the term of service was completed.

The colony started with gross disparity of wealth in land. After 1618 every free settler obtained as "headrights" a grant of fifty acres, plus an additional allotment of fifty acres for each member of his family and for each laborer whom the settler imported at his own expense. Some free settlers with small holdings and a few of the one-time indentured servants managed to climb to the ranks of those who drew wealth from other men's labor, but the basic contrasts which were present from the beginning were sharpened as the years went by. The wealthy planter could draw added income from storing and selling his poorer neighbors' crops and importing the English goods that his neighbors needed. When the price of tobacco fell sharply, in the latter part of the seventeenth century, only those who had plenty of land and unpaid labor at their disposal could make a living from their crop.

In Maryland and in South Carolina the pattern of colonial life was very similar to that in Virginia: wealthy landowners, labor mostly bound by contract for a term of years without wages, together with increasing dependence upon Negro slaves, and production on the land for a distant and uncertain market.

In all these colonies there were also great numbers of small farmers who had neither slaves, indentured servants, nor wage workers and who depended mainly on food and clothing and household articles produced by the family for their own use.

The Pilgrims and the Puritans, who were the early settlers in New England, were mainly farmers and artisans. Their first voyages were financed by wealthy merchants of their own faith who did not expect to interfere with the colonists' management of their affairs. Coming as voluntary groups with a strong common interest, the settlers combined individual small landholdings with a large common pasture and, in the earlier years,

some common land in crops. As the settlements grew and moved inland from the coast, individual farms sharing a common pasture and taking counsel together in town meetings remained the foundation of New England farm life.<sup>3</sup> There were always, however, rich and poor among the New England settlers and almost from the beginning some used indentured servants or wage workers on their farms. Property differences were sharpened as shipping and trading developed. And a few fortunes were built, even in New England, from large royal land grants to favored individuals.

New York, settled originally by the Dutch who called it New Amsterdam, was primarily a commercial port for the Indian fur trade carried on from the trading post at Albany. In order to encourage settlement and the development of a self-sustaining colony, the Dutch government gave huge private grants of land along the shores of the Hudson River. These lands were gradually settled by tenants who received life-long tenure involving semi-feudal obligations to the wealthy patroons, as the Dutch landowners were called.

In Pennsylvania William Penn, the Quaker son of a British Admiral, received an immense grant of land from the Duke of York (later King James II of England). This land was distributed to settlers on terms which were easy enough but which perpetuated the gradations of wealth: "a fifty-acre headright free; two-hundred-acre tenant farms at a penny an acre rent; estates of five thousand acres for £100, with a city lot thrown in."<sup>4</sup>

Throughout the seaboard colonies there were certain restrictions aimed at protecting the large landholdings of the wealthy. Under the law of primogeniture in New York and in the South, landed property passed, intact, to the oldest son. This was modified in Pennsylvania and in New England to provide merely that the oldest son must receive a double share when the land was divided among a father's heirs. Such restrictions were abolished shortly after the War of Independence and the setting up of our United States.<sup>5</sup>

Everywhere, except among the Quakers, Negro slavery came to be accepted as a normal source of labor power. New England merchants and sea captains entered more and more into competition with the English and Dutch for the bloody profits from the slave trade. On it were founded some of the early fortunes of New England families. But slave labor itself played a minor part in the northern colonies.\* Their varied farming required less labor per acre than could be profitably utilized on the commercial crops of the large southern plantations.

Trading towns developed as increasing numbers left the land to go to sea, or to carry on trade, local or foreign, or to become specialized independent craftsmen. Especially in the middle and northern colonies the supply of free wage labor lagged behind the opportunity for employment. Conditions of free labor were commonly regulated in favor of the employer. Wages, for example, were held down by law.<sup>6</sup>

Here, as in the South, laborers were imported as indentured servants. And the independent artisan often had at his disposal an apprentice who, like the indentured servant, was bound to serve through a term of years. But the apprentice was assured certain minimum standards of shelter, food, and clothing.

While the South was exporting its tobacco, rice, indigo, and some forest products and furs, employers of indentured servants and wage workers in the northern colonies were developing their own specialties for trade. Codfishing off the New England coast found a ready market, the best grades going to the Catholic countries of Europe, the middling grades to the settlements all along the coast, and the poorest grades to West Indian plantations as a cheap food for the Negro slaves. New England timber, together with pitch, tar, and turpentine, was carried across the ocean to English shipyards. And all along the coast, but espe-

\* In 1776 there were something over half a million Negro slaves in this country, of whom possibly 50,000 were in the colonies north of Maryland and Virginia. (H. M. Morais, *The Struggle for American Freedom*, p. 197; Morison & Commager, *The Growth of the American Republic*, Vol. I, p. 244 fn.)

cially in New England, shipbuilding was soon developed as a major industry. Saw mills prepared timber for the shipyards. They also carried on a considerable business in lumber for houses, and in hardwood hoops and barrel staves for sugar, molasses, and rum.

As time went on, Yankee "clippers" were recognized as the best ships on the seven seas. By 1775, some 30 per cent of the vessels in the British merchant marine were the product of New England shipyards. And three-fourths of the colonial trade was being carried in American-built vessels.<sup>7</sup>

Very important were the New England distilleries which turned West Indian molasses into rum, a drink in great demand among the colonists and a valuable article of commerce. Rum found ready sale in England and was bartered for slaves on the coast of Africa.

As Maryland and eastern Pennsylvania became the first specialized grain area in this country, so the first colonial grist mills preparing flour for sea-borne trade were built at waterfalls which are now within the boundaries of Baltimore. Some of these mills included workshops for making barrels and their own bake-ovens for preparing sea biscuit.

Iron smelters and forges for the making of small iron products were started early, on a very small scale, near surface deposits from Massachusetts to Georgia. Bricks and pottery and glass were made in the colonies almost from the beginning. The first colonial paper mill was operated in 1690 by a Dutch immigrant in Philadelphia.

Agriculture remained, however, the major occupation. It was of such basic importance, even in New England, that the New England farmers could have the constable compel artisans and mechanics to leave their crafts and assist with the harvest if there were a shortage of labor. And even while artisans were working independently and new industries were growing up on the basis of wage labor, many crafts were carried on within the farm household.

The colonies gave wide opportunity for climbing from pov-

erty to riches, but differences between rich and poor were present from the beginning. The wealth of the rich was based on ownership of land and ships and trading capital and the appropriation of values created by other men's labor.

Industrial development was, however, deliberately retarded by British restrictions intended to safeguard the colonies as a monopoly outlet for British traders and the products of the rising British industries.

## II. WHAT IS CAPITALISM?

Like the Old World from which the colonial settlers had come, the colonies were building a capitalist economy. This process was fairly well advanced in the older world, where masses of peasants had lost their land, artisans were losing their independence, and merchants were using their wealth accumulated in trade and banking to become the owners of workshops employing hired laborers.

People had more chance in the colonies than in the Old World to rise from one class to another. Enterprising sailors might become shipowners and employers. Artisans had a free field for developing their own shops with hired workers. It was relatively easy for the free settler or the worker who had completed his term as indentured servant to acquire land. And the possibilities of farm ownership held back the growth of a working class compelled to sell their labor power. Industries did develop but more slowly than in England. And here, as in the older countries, they grew on a capitalist basis. Ships and shipyards, distilleries and grist mills and iron works were owned and managed by employers who hired other men to work for them. And so long as these men were hired laborers they lived by selling their labor power to other men who owned the means of production.



Capitalism grew, of course, out of economic relationships which had developed through long ages of human history. It is set apart from earlier periods by the fact that the workers are neither slaves nor serfs but free men who have lost ownership and control of the land, the tools, and the materials without which they cannot produce. They can live only by finding employment as hired laborers to utilize equipment privately owned by other men.

Capitalist industry came after centuries of trading and the use of money, but trading and the use of money also reached a new stage of development under capitalism. So four closely inter-related aspects make up a full-fledged capitalist economy:

1. Goods are produced for sale at a profit. And such production completely dominates our economic life.
2. A system of money is in general use as a measure of value, a standard of price, a medium of exchange, and a means for the payment of debt. Only with the development of wage labor as the general basis of production does money become a universal necessity.
3. Individuals and corporations own the means of production utilized by the workers.
4. Producers are free hired workers who do not own the materials and equipment necessary for production and who also do not own the product of their labor.

1. *Trading and exchange* are older than ancient Rome. But only in our capitalist era have they drawn into the network of commerce almost everything which is needed for human living.

The last bulwark of self-sufficient family production for home use and not for sale was, of course, the self-sustaining farm household. But long before the spinning wheel and the hand loom had passed from the fireside to the museum, the farmer was depending on iron tools and potteryware which he had not made himself. He was taking his hides to the tannery and buying his wagons and much of his household furniture. As industry and towns developed, more and more people depended on buying their food. The farm family devoted more of its time

to producing for sale and abandoned one handicraft after another.

Development of trade with the new world horizons of the fifteenth and sixteenth centuries brought a fundamentally new approach to the basis and purpose of production for sale. The medieval artisan who worked independently and sold his product to a neighbor or a merchant had been primarily concerned with obtaining in exchange for his product other products made by other men's labor. He used his product as a means of obtaining things that he needed for living and working. He produced for the simple exchange of goods for use.

To the merchant who bought the artisan's product, the purpose of the trading was quite different. He was interested in buying a product in order to sell it to someone else at a higher price which would give him, the merchant, a profit on the transaction. Of course, the merchant also wanted some products for his own use or for the luxury of display, but as a merchant he was carrying on the business of buying and selling in order to gain a profit and accumulate capital. But this was not yet industrial capitalism. For the merchant of the artisan period bought the products from men who owned their tools and their materials and the product of their labor.

Under industrial capitalism the employer buys with wages the workers' labor power, he provides the materials and equipment, and therefore he owns that which the workers produce. He sells the product with an eye primarily to profits over and above the replacement of costs. Like the merchant before him, who traded in artisan products, the capitalist employer expects not only a living for himself—from the results of other men's labor—but a further profit to increase his capital. Production itself, like the merchants' trading, is carried on for the primary purpose of accumulating private wealth.

Capitalist production has displaced, one after another, every kind of "natural economy." Even the last of the household crafts have given way to bakeries, clothing factories, and canneries,

2. *Money* is also much older than capitalism. It had developed long before the modern era as exchange of goods became too complicated for barter. Many different things have served, in their time, as a measure of value, a means of exchange, and a medium for payment of debts. But the use of gold and silver, for these functions of money, was well established in the ancient trading nations of the Mediterranean.

For the mass of producers, however, money played little or no part as long as they were slaves or serfs. In Rome, as in our own southern states until after the Civil War, slaves who were entirely "kept" by their masters produced most of the agricultural products entering into the export trade. Serfs of the Middle Ages were self-sustaining workers on the land who gave part of their labor time to the feudal lord. They might exchange products with their neighbors. But money entered into their living only as they sold products in the towns. Then money rent began to take the place of actual labor as fulfilling obligations to the feudal lord.

As former serfs became free artisans, released from service to the lord, they were more dependent on trade and money. The cow and the garden patch of the town artisan gave him food, but his was no longer a self-sustaining family economy.

Attempts at standardizing coinage went along, of course, with the expansion of trade. In colonial America trade was important and varied, but the precious metals were extremely scarce and England opposed all attempts at independent colonial coinage. English pounds and Spanish dollars served in the main as the measure of value and the money of account, but very little currency was handled in our colonial trade. Instead, in coastwise and foreign commerce, bills of exchange drawn against the merchants who received a shipment served commonly as the medium for much of the trade that was more complex than barter. Locally, the general stores were developed largely as centers for direct exchange of products.

To the merchants money itself had become a source of increased wealth long before the setting up of capitalist workshops.

For they not only drew profits from their trading but they loaned money at high rates of interest to warring feudal princes. These old-time merchant bankers were denounced as usurers by the Catholic dignitaries who were still supported in comfort not only by church funds but by the labor of serfs on their feudal estates.

Later, as capitalist production developed, the stigma of "usury" was removed—provided interest rates were fairly moderate—and lending on interest was considered a worthy and useful act. At the same time, the money value of the means of production came to seem far more important than the materials and equipment or even the workers themselves. Today, owners of capital, often having no part whatever in the management of industry, may be quite indifferent as to the product and totally ignorant of the process by which new value is created. They reckon only the dollars they have invested and the dollars they expect to receive as income therefrom.

3. Under slavery, the *means of production* as well as the bodies of the workers were the property of the slaveowner. Serfs, on the other hand, owned their tools and their cattle. And while the feudal master owned the land, the serfs had a certain security of possession and freedom in using the land on which they lived. But serfs paid a heavy tribute to the landowner and they had no control of the terms under which the land was granted to them. They were not legally free to leave the land and evade their obligations to the feudal lord. In some countries, notably in England, the landlords finally destroyed this feudal security when they found it profitable to throw serfs (and even independent farmers) off the land. Such destitute land workers were the original source of the modern proletariat.

With the passing of feudal serfdom, the great landlords retained, in most countries, their ownership of land. And wherever the former serfs obtained small freeholdings of their own, the principle of private property in land was extended. This principle had been carried over into the American colonies as a matter of course.

Private ownership of land continued as part of the capitalist system, but it is not peculiar to capitalism and is not an essential part of it.<sup>8</sup>

Land is of little use without tools. And feudal serfs, as we have said, produced their food and carried on their handicrafts with tools which they owned themselves. Town artisans of the feudal period also owned their tools and the materials with which they worked. And as the artisan's apprentice completed his term of service, he became in his turn an independent worker.

Little by little the artisan lost his independence and his ownership. Several forces were undermining his position. Within the guilds which artisans had organized for their own protection, master craftsmen had become small employers with an eye to profit. They took on both apprentices and qualified artisans (journeymen) who worked under the master's direction with materials which the master supplied. But the very guild restrictions which the artisans had built up for their own protection became a hindrance to further development. And when the expanding world market was opened up by the voyages and discoveries of the fifteenth and sixteenth centuries, the new manufacture was developed by the merchants with their capital accumulated from the profits of trading. The new industry came in by two different paths.

Merchants began placing orders and supplying materials for work to be done under contract in an artisan's shop. Craftsmen gradually lost their independence and the restrictions of the guilds were undermined from within.

At the same time, merchants were going out to the destitute villages and gathering the rural poor into workshops where they worked under the merchants' supervision and had no control over the tools with which they worked.

Gradually the employers introduced division of labor and began the long process of increasing the workers' productivity. When machinery was set up to displace hand tools, the last vestige of workers' ownership in the means of production was wiped out.

While workshops were thus developing into capitalist factories, industrial wage labor was developing also in two other important fields. Shipowners had been using sailors who were free workers hired for the voyage, and paying them with a share of their profits. This was really a wage relationship. And in ore mines the old guilds of associated workers were being transformed into corporations employing hired labor.<sup>9</sup>

4. Wage laborers in shops or mines or on ships which they did not own and working with tools and materials supplied by the employer were producing under capitalist conditions. They were free to offer themselves for hire and free to leave one employer and look for another. Capitalism assumes that *laborers are free men*. They are free to hunger and starve for they have no means of livelihood without selling their labor power, and the employer is also free to hire and dismiss the workers. The obvious exploitation of slavery and of serfdom gives place to a new relationship in which the exploitation of the worker is concealed behind a veil of freedom. Wherever slavery persisted (as in the agriculture of our southern states until the Civil War) this was a survival of pre-capitalist exploitation and retarded capitalist development.

In obtaining this "freedom," however, the wage worker did not acquire ownership and control over the materials and equipment necessary for production. He has no title to the value his labor has produced, no voice in the disposal of the product. The change is summed up by Marx:

"The immediate producer, the laborer, could only dispose of his own person after he had ceased to be attached to the soil and ceased to be the slave, serf, or bondman of another. To become a free seller of labor power, who carries his commodity wherever he finds a market, he must further have escaped from the regime of the guilds, their rules for apprentices and journeymen, and the impediments of their labor regulations. Hence, the historical movement which changes the producers into wage-workers, appears, on the one hand, as their emancipation from serfdom

and from the fetters of the guilds, and this side alone exists for our bourgeois historians. But, on the other hand, these new freedmen became sellers of themselves only after they had been robbed of all their own means of production, and of all the guarantees of existence afforded by the old feudal arrangements. And the history of this, their expropriation, is written in the annals of mankind in letters of blood and fire."<sup>10</sup>

Roots of industrial capitalism appeared in the sixteenth century when workshops began to employ wage labor. Capitalism developed slowly, for such production did not immediately displace the independent artisan and the home production of the self-sufficient farm household. But the new capitalist product, based on division of labor within the workshop, underbid relentlessly the products of the artisans. Guilds and journeymen's societies which had protected prices and standards of workmanship went down before the steady advance of capitalist production.

From its earliest days capitalism has been rooted in the exploitation of destitute masses, but in spite of this it marked new steps in the forward march of mankind. Tools taken out of the workers' hands were transformed into a great social mechanism drawing groups of workers together for common effort. The labor process itself was socialized.

The driving competition for capitalist profit stimulated scientific research and the general advance of knowledge. Technical progress was speeded up in an unprecedented manner, until monopoly combines found it more profitable to seize upon new inventions and withhold them from use.\*

Human life itself was revolutionized by capitalist development. Individuals uprooted from old backgrounds were schooled by hardship and led by dreams of new adventure. Horizons were widened and peoples of most varied origins were

\* On the progressive role of capitalism, see Karl Marx and Frederick Engels, *The Manifesto of the Communist Party (Communist Manifesto)*, Section I.

thrown together. Workers demanded mass education and even the employers had to recognize that this was necessary.

Such advances were purchased at the cost of unmeasured human suffering. For the freedom of capitalism which has brought adventure and hope and wider horizons and some genuine advance in health and well being has also made it impossible for workers to exist without selling their labor power. It has robbed them of their security. A few have risen to the ranks of the capitalist class but millions more have had to continue their toil, creating wealth for the few. Workers have never known how long a job would last. For just when wages were fairly high and everything was booming, the boom would collapse and millions would be thrown out of their jobs. Even when there is no crisis at hand, processes are changed so that machines do more and fewer workers are required. Or a worker is dropped because he is too slow or too old for the work he has to do.

Within the last few years, the American workers (like those in England and elsewhere) have won the small beginnings of a social insurance system. But benefits are extremely meager. Real "social security" for wage workers requires far more than any capitalist government has as yet attempted to provide.

Capitalism, with all its cruel exploitation, has prepared the technical possibilities of abundance. It has schooled the workers in solidarity and in struggle. It opens the way to the better world of socialism.

### III. PRODUCING FOR SALE: WHAT IS VALUE?

Increasingly, in the course of human development, people have become dependent one upon another. Today we cannot exist without clothing, food, buildings, and many other things which we have not made ourselves but which we expect to obtain for the asking, provided we have the money to pay for them.

Of course, people have always lived in groups with some sharing of work and some division of labor. The group needed various things, and among them they produced what they could to meet their needs. But with the shift from production for use to production for sale, and then to production for sale at a profit, division of labor was developed to a degree undreamed of in ancient times. Today within each industry there is a minute subdivision of tasks. And innumerable specialized industries scattered throughout the country—and almost throughout the world—contribute to the total production available for American consumers.

This shift in the purpose of production not only stimulated a most complex division of labor, making each worker a part of a vast social whole. It gave the products themselves a new social character. They no longer express the separate individual efforts of each family to produce its own tools, its own food, its own clothing. Instead, products are poured forth on the market as into a vast social reservoir from which all men can draw provided they have the money to pay in exchange for the products they desire. Commodities are older than capitalism, but only with industrial capitalism has production of commodities driven out almost the last trace of production by the laborer of goods which he himself will use.

A highly developed system of exchange is essential for commodity production. And this in turn rests upon the two kinds of value embodied in every commodity. It has a use value, either as a finished product for human living or as part of the materials and apparatus required for the manufacture of other products. Use values are infinitely varied, and without diversity there would be no incentive for exchange. The commodity also has an exchange value—or simply “value,” as distinct from use value—and this can be measured in terms of other commodities, including money.

Exchange value reflects the quantity of labor required to produce the commodity. It is not measured by the time actually spent on this particular article by those individuals who labored

to produce it. Instead it is measured by the *average* amount of labor time necessary to produce such an article at the given stage of technical development. This is what Marx called the socially necessary labor time. Or, in Marx's own words:

“The labor-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time.”<sup>11</sup>

Such labor varies, of course, from one period to another with the advance of technical knowledge and changes in method of production. As new machines are introduced, they reduce the socially necessary labor required for a given product. This cuts also the value of such units of the product as are still produced with a greater expenditure of effort. The classic illustration of this is the way the development of the textile industry, at the end of the eighteenth and early in the nineteenth century, drove the cottage weavers to starvation. For as textile mills with power-driven spindles and power looms were built and improved and extended, hand work in the making of cloth was no longer an essential part of the total production. The “socially necessary labor” embodied in the cottage weavers' product was only a small fraction of their actual daily effort, and the value of their product shrank accordingly.

Like the commodity itself, with its twofold nature as a useful product and as an object embodying exchange value, the labor producing the commodity has a twofold character. It is, in the words of Marx, “productive activity of a definite kind and exercised with a definite aim. Use values cannot confront each other as commodities, unless the useful labor embodied in them is qualitatively different in each of them.”<sup>12</sup> At the same time, underlying each specialized productive activity is the fact that all the different specialized activities are essentially “the expenditure of human labor-power.”

"The value of a commodity [as distinct from its usefulness] represents human labor in the abstract, . . . the expenditure of simple labor-power, *i.e.*, of the labor-power which, on an average, apart from any special development, exists in the organism of every ordinary individual. Simple average labor, it is true, varies in character in different countries and at different times, but in a particular society it is given. Skilled labor counts only as simple labor intensified, or rather, as multiplied simple labor, a given quantity of skilled being considered equal to a greater quantity of simple labor. . . . While, therefore, with reference to use-value, the labor contained in a commodity counts only qualitatively, with reference to value it counts only quantitatively, and must first be reduced to human labor pure and simple."<sup>13</sup>

Take, for example, the loaf of bread which we buy at the corner grocery. The chances are that it was made in one of the big modern bakeries where the workers are few and the dough is mixed entirely by machinery. Even though the workers do not actually touch the dough, the loaves baked during a single day absorb the value created that day by the workers' labor in handling the materials and tending the machines. Each loaf incorporates its own share of this newly created total. In addition to this, some value is transferred to the bread from the machinery and equipment. If these are normally used for ten years of steady operation, then in the course of ten years the workers' labor transfers to the bread produced during that period the total value embodied in the machinery and equipment. And each loaf receives its own tiny fraction of this total value.

Such fractions of newly created value and of value transferred from the machinery and equipment are added to the value of the flour and milk and sugar and shortening and salt and yeast which are mixed in the dough. The value of these materials is made up, in its turn, of value newly created by labor and of value transferred from machinery and equipment in flour mill, sugar and salt refineries, yeast factory, and shortening factory, together with the value of the raw materials ground or

refined or manufactured in those establishments. Also entering into the value of the bread is the value produced by necessary transportation of materials and machinery to the spot where the loaves are prepared for sale.

Step by step this process takes us back to salt mines, to cows on a dairy farm, to land producing wheat and land producing sugar. And in the same way we could trace the machinery used at each stage of the production to the factories which made the machines, and from them back to mills making aluminum and mills making steel out of minerals dug from the earth's surface or from mines deep under the earth. We could remember that machinery requires fuel and oil. Everything used in making the bread and in bringing the ingredients to the bread factory is derived in the last analysis from the earth itself. But all the exchange value in the product is created by human labor.

Land in itself has no exchange value apart from the labor that is embodied in it. Metals in themselves have no exchange value until human labor is applied in extracting them from the earth. Farm land has no exchange value until it is cleared and cultivated. The wheat that goes finally into our loaf of bread includes new value created by the farmer who planted the seed and reaped the crop. It includes a fraction of the value which the farmer's previous labor had worked into the land and also a fraction of the value embodied in the farmer's tools and equipment used in raising the crop.

Much capital is invested in land, because control of land gives power over the production of values from the soil and other natural resources of the earth. But land as such, although the bountiful mother of use values, is not in itself a commodity. It has no value apart from labor which has been incorporated into the land. It is bought and sold, and ownership of land serves as a legal basis, under capitalism, for draining off unearned income from the total reservoir of value. But in itself land has no value. At each stage of the activities by which some product of nature is prepared for human use, the value embodied in materials and equipment and in the finished commodity has been created by human labor.



Value in each commodity is measured against the value in other commodities. And money originated as one or another commodity came to be accepted as a general standard of value by which all other commodities could be measured. Technically, money is the "universal equivalent." So gold and silver were commodities before they were used as money. And they are still commodities, even when stated quantities of them are measured and marked with a uniform stamp and labeled as dollars or pounds or marks or francs.

Gold has won out over silver as a money metal. But there is no magic in gold. Its exchange value is based on the labor expended in finding it and extracting the pure metal from the other substances in which it is embedded. It has served as the most convenient money standard because it has high value in small bulk; it is durable; it is uniform in quality; and it is easily divided and easily combined. The value of gold has been reduced when rich new sources have been discovered which are more easily mined or more easily accessible. But between these turning points, there have been long periods of time when gold has maintained a marked stability of value.

Prices in gold, or in a currency based on gold, have become the nearest approach to a measure of all other commodities' values. But prices seldom correspond exactly to the exchange values which they represent. They are pushed up or down by monopoly control, or by scarcity, or by lack of mass purchasing power, or by failure of the commodity to satisfy a social need. Sometimes prices are held firm by monopoly, even when new methods of production have reduced the value embodied in a product. But while prices for all the various commodities only roughly reflect their relative values, the totals of prices obtained for the totals of commodities sold do equal, in the long run, the total value embodied in them.

This mechanism of commodity production knits together the separate producers whose labor is creating the sum total of our material wealth. Each worker is part of the total social labor. And all are dependent upon one another. No one can live with-

out the products of other men's labor. The exchange value of each separate product expresses crudely this concealed human relationship hidden under the form of commodities produced for sale. At the same time, this mechanism of production, socially necessary and socially utilized, and also the products of social labor, are owned and controlled by individuals and groups of capitalists who direct the vast mechanism with an eye solely to their own profit. These human relationships and the private possession of values produced by social labor have determined our wealth and our poverty. Only under socialism is it possible to subordinate the production and distribution of use values to human needs.

The living seed of a truly social production is encased in the tough pod of capitalism.

#### IV. WORKERS PRODUCE MORE THAN THEY RECEIVE

A few people gathering wealth at the expense of the many had been a characteristic of human society long before the capitalist form of exploitation was developed. And underlying the difference between capitalism and earlier production relationships is one basic fact common to slavery, contract labor, serfdom, free handicraft, and wage labor.

At each of these stages in human society, the worker has been able to produce by his labor more than he requires to maintain the life of himself and his offspring. Through various forms of coercion his surplus product has been taken from the producer and appropriated by other individuals.

In slavery, the worker belongs wholly to his master, and so does the entire product of his labor. The slave receives only such food, clothing, and shelter as the master chooses to give him.

Contract labor in the American colonies meant that the worker served for a term of years without wages in a temporary slavery. Such rewards as he might receive at the end of the contract bore no relation to the value of the worker's labor power nor the value the worker had produced for his master during the period of servitude.

In serfdom the worker was bound to give a stated part of his labor time or of the product of his labor to the feudal lord. He owned his tools and had relatively secure possession of a piece of land on which he and his family supported themselves with the remainder of their labor time.

The medieval town artisan was a free worker, owning his tools, selling his product, and pocketing the value which he had produced. As an apprentice he had gone through a period of subjection to another artisan. But while this position was often abused and made the basis of exploitation for the benefit of his master, it was definitely limited to a term of years and was accepted as a necessary preparation for his own independent work.

Then as trading increased within the towns, the merchants who had been selling products abroad began nosing their way into the dealings between the artisan and those customers to whom the artisan had sold directly. But here the merchant could no longer count on making his profit by overcharging the customer, as merchants had done from time immemorial when they were selling products far from the spot where they had been produced. So they looked for a way to exploit the artisans themselves. Even while artisans still owned their tools and their workshops, they would be offered contracts for working up materials supplied by the merchant. Artisans thus assured of a sale would accept the contractor's terms. They preferred the certainty of sale, at a lower price, rather than the risk of unsold products if prices were held nearer the total value that the artisans had produced.

Thus part of the value created by the artisan's labor began finding its way into the pocket of the merchant. Before long, the artisans were completely losing their independence. They were

working in the contractor's shop and, ultimately, with division of labor and the beginnings of machinery, they lost their tools and became the wage workers of a genuinely capitalist production.

Under our capitalist system, wage workers are unable to produce unless they sell their labor power to others who own the means of production. And on the job the industrial worker is required to produce more value than he receives from the employer in wages.

Even when he is "well paid," the industrial worker's wages are not based on the value which he produces. He is paid for his labor power, a commodity which he sells to the employer. Labor power has a value directly related to the value of commodities utilized in rearing the worker, in maintaining his life and vigor from day to day, and in producing and rearing new workers who will succeed him when his labor power is exhausted.

At any given stage of social development, the value of the simple labor power common to all normal human beings is determined by the value (or, actually, by the price) of the food, clothing, shelter, and other "necessaries of life habitually required by the average laborer."<sup>14</sup> Skilled labor power represents special training and embodies a higher value than simple labor power.

Labor power in use becomes labor, which is the source of new value. This new value created by the worker's labor in a normal working day is always greater than the value embodied in his labor power. And all of the value newly created belongs to the employer who has purchased the worker's labor power. Skilled labor produces more value than unskilled labor in a given period of time. But neither the skilled nor the unskilled worker is paid for the value he is producing. One man's wage is higher than another's because the value embodied in his skilled labor power is greater than the value embodied in the other man's unskilled labor power.

Social changes since the beginning of the capitalist era have



introduced contradictory trends affecting the value of labor power. Higher educational requirements and a general rise in the socially recognized minimum standards of physical comfort have tended to increase its value. But the rising productivity of human labor has tended to lower the exchange value of the various commodities necessary for a worker's existence.

Wages are the price of labor power. And just as other prices fluctuate around the values of the various commodities, so wages seldom equal the value of labor power. Wages approximate value only when labor power is "hard to find" and workers are strongly organized to protect their own interests. They are pushed far below value when a large reserve of unemployed workers weakens the resistance of the working class.

Wages are easily held below the value of labor power in a region which deliberately excludes any considerable section of the working class from skilled and semi-skilled jobs. Negroes in the United States, for example, have had very limited opportunity for employment in such basic industries as textiles, steel, and railroads. They have been compelled to remain as a chronic reserve of unemployed and semi-employed workers. This reserve of labor has made it possible for employers to hold down the wage levels for all grades of workers in our southern states. Not only the wages in dollars and cents but the real wages in relation to the cost of living have always been lower in the South than elsewhere in the United States.

False fear of Negro competition has been instilled in the minds of white workers, especially in the South. Where this fear prevails, it blurs the white workers' understanding of their own situation. It greatly retards the growth of the working-class solidarity through which alone their problems will be solved.

Employment of women in industry without strong union organization has also tended to push wages down. It is commonly accepted that a "living wage" for a man should be high enough to support the worker himself and a "typical" family. It is assumed that the man has others dependent upon him. It is also assumed, quite incorrectly, that a woman worker supports only

herself. This has served as an excuse for paying a woman less than a man for identical work, involving identical skills.

In textiles and other industries where many women, and even children, have been employed, men's wages have been pushed far below the value of the worker's labor power. Two or more persons have been compelled to sell their labor power in order to meet the cost of maintaining a family. This was most conspicuously true in the clothing trades of New York, Chicago, and Baltimore until the workers organized fighting unions. Then putting an end to home work and to child labor in the factories, the struggles of the union succeeded in raising to a "fair" level the wages paid to men and women alike.

But wages, whether "fair" or very low, are paid to the worker in return for the use of his labor power. They bear no direct relation to the total value which the industrial worker's labor produces in a normal working day. The industrial worker toils seven, eight, ten, twelve—or even more—hours, according to the standard current at the time for his industry or occupation. But long before his working day is finished, the worker has created by his labor new value equivalent to the value of his labor power. Beyond that he continues to produce, creating "surplus value" over and above the amount required for his maintenance. He has repaid the employer for the wages he will receive and, as he continues his labor, he provides "surplus value" which is pocketed by the capitalist.

*This surplus value produced by the workers, beyond that which repays the employer for his outlay in purchasing their labor power, is the basic source of profit, capital accumulation, and wealth for the capitalist class.*

Marx makes a sharp distinction between the capital invested in the purchase of labor power and the capital invested in all the other elements of production. So he calls the capital invested in wages, for the purchase of labor power, *variable capital*. Wages buy the use of the workers' labor power. And labor power in use is the one source of newly created value. It is also, therefore, the only source of the surplus value which increases the em-

ployer's capital. The rest of his capital, invested in the raw materials and machinery and other equipment from which previously created value is transferred to the new product, Marx calls *constant capital*.

Raw materials, machinery, and buildings are an absolutely essential part of the production process, but they are not in themselves the source of new value. Without them the worker could not produce new use values, and without them the worker could not apply his labor for the creation of new exchange value. But all the new exchange value by which each product exceeds the value transferred to it from materials and machinery is created by the workers' labor. And this new value, in its turn, is made up of two parts: the value replacing the employer's variable capital (paid to the workers as wages) and the surplus value which returns to the employer more than he has expended.

Capitalists measure their return by comparing their operating profit (consisting of surplus value) with the total capital invested in the concern. But Marx brought forward another comparison which is far more important in the relation of workers to the capitalist class.

Marx compared the surplus value with the variable capital invested in wages. He called this comparison the rate of surplus value or the rate of exploitation. For in this he found the true measure of what the capitalists take from the workers.

When other conditions are the same, the rate of surplus value is directly related to the length of the full-time working day. So, for example, if it takes workers six hours to produce the new value which repays the employer for their wages, then an eight-hour day provides a rate of surplus value of  $33\frac{1}{3}$  per cent; a ten-hour day provides a rate of surplus value of  $66\frac{2}{3}$  per cent; and a twelve-hour day, a rate of 100 per cent. As the general level of labor productivity rises, the labor necessary for the workers' living (and therefore necessary for creating value roughly equivalent to their full-time wages) is completed in a shorter time. Then, unless the full-time working day is also reduced, the rate of surplus value rises. So, for example, if it takes

only four hours instead of six to produce the new value which is equivalent to the workers' wages, then an eight-hour day provides a rate of surplus value of 100 per cent instead of  $33\frac{1}{3}$  per cent; a ten-hour day provides a rate of surplus value of 150 per cent instead of  $66\frac{2}{3}$  per cent; and a twelve-hour day, a rate of 200 per cent instead of 100 per cent.

This does not mean, of course, that the worker is producing only the replacement of his wages in the first four hours (or the first three hours, or six hours, as the case may be), and only surplus value in the remainder of the full-time working day. His wage is geared to cover in the hours of a full-time day the market price of his labor power. Payment for each hour of his labor is reckoned as a fraction of the total for a normal day. And the new value produced within the hour includes a similar fraction of the daily total of surplus value.

If the worker puts in half time, he is paid half a day's wage and produces half a day's new value. Within this half day's product, the ratio of surplus value to the new value which replaces variable capital is the same that it would have been for a full day's work.

Now the current demand for a guaranteed minimum annual wage, put forth by the Congress of Industrial Organizations for the post-war period, points up the fact that when workers are employed part-time the chief burden of this partial unemployment has been carried by the part-time worker. It is true that—other things being equal—the employer receives less surplus value and lower profits when he cuts down his operating schedule. But the worker's wage rates are related to his cost of living on the assumption that he has full-time work. So any part-time employment means that he is unable fully to utilize his labor power and does not receive its full value.

The worker may put in extra time and receive for this extra time the same number of cents per hour that he received for each hour of the regular day. Then he increases the day's total of surplus value going to the employer, but again the rate of surplus value remains unchanged.

But if he works extra time, without any payment beyond his regular wage for a normal day, then he produces new value which goes wholly to the capitalist and raises the rate of surplus value.

If, on the other hand, he works overtime and receives "time and a half" for the extra hours, the ratio of surplus value to variable capital is lower in the overtime hours than it was during the regular day. This occurs, of course, only when workers have won recognition of some "normal" limit to their working hours and refuse to permit the extension of time without a higher rate of pay. From the worker's immediate viewpoint, overtime should be paid at a higher rate because the longer hours consume relatively more of the worker's energy.

When hours are lengthened beyond the normal day or are cut to part-time without any variation in the hourly rate of pay, then each hour of the working day creates its own fraction of the new value to replace the worker's wage and its own fraction of the total surplus value which the worker produces for the capitalist. Within each hour of labor the rate of exploitation is then the same that it would have been in the regular working day as a whole.

Whatever the stage of industrial development and the degree of labor productivity, workers' struggles for a shorter full-time working day have attacked one of the most strategic points in the capitalist economy. Mostly, of course, the workers have not fought consciously to reduce the surplus value available for the employer. They have fought for leisure time to use as they see fit. They have wanted protection against the accidents and ill health and premature old age which result from overwork. But whenever shorter hours are wrested from the employers without a reduction in the workers' total wage, they reduce temporarily the rate of exploitation and the employers' surplus value. Only temporarily, for any general shortening of the hours of labor sets in motion forces which strive to "get more" out of each hour of work and compensate the capitalists for the restrictions placed upon their exploitation of the workers.

These forces set up two contradictory trends. They may genuinely increase the worker's productivity by technical changes that raise the output without demanding of the worker more skill or more expenditure of effort. Such changes reduce the new value embodied in each unit of the product. They do not affect the rate of exploitation. Or the employers may increase output by pushing the worker to greater speed and greater intensity of labor. Then in the course of the day the worker produces more value and more units of the product. But the new value embodied in each unit of product is unchanged. Under speed-up, however, as the years go by the worker's energy is more quickly exhausted and the total span of his productive life is shortened. Unless wages are markedly increased to provide the full earnings of a lifetime in these fewer working years, all such intensification of labor involves increased exploitation of the workers.

When Marx was writing *Capital* in the 1860's and 1870's, the workers' struggle to shorten their working hours was well advanced. In England, the country which had led the world in capitalist development, a Factory Act had limited to ten hours the legal working day in textile mills, and a few concerns were requiring only eight hours of work. In other industries, working days of twelve hours or longer were still common.

Skilled workers in the United States had won the ten-hour day as their standard before the Civil War, and they began, during the war, to talk of a new demand for an eight-hour day. Organized agitation, strikes, legislative bills kept the eight-hour day in the forefront of labor activity until the crisis of 1873 brought mass unemployment and checked immediate advance. With the spread of labor organization in the 1880's the eight-hour issue was again brought forward. On May first, 1886, some 340,000 workers in American cities joined in a one-day strike and mass demonstrations demanding an eight-hour day. Such May first demonstrations were repeated two years later, and from these American roots there grew the general observance of May first as a great international labor day.

Only some thirty years later was an eight-hour standard generally recognized in private employment. But progress was uneven. Steel strikers in 1919 revolted against the twelve-hour day with a twenty-four-hour turn once every two weeks. The strike was defeated, but gradually ten-hour and eight-hour days were introduced for most occupations in steel. Some steel workers, however, were still on a twelve-hour day, and the seven shift week was common in steel, as recently as 1929.<sup>16</sup>

For workers employed in production entering into interstate commerce, a basic forty-hour week was fixed in this country by the federal Fair Labor Standards Act of 1938, enacted during President Roosevelt's second term. Any hours worked beyond the forty-hour standard must be paid at a rate 50 per cent higher than the basic pay. Railroad workers had been granted in 1916, under federal law, a similar basic standard of eight hours a day.

For more than a century workers in the United States have carried on the struggle for shorter hours, higher wages, compensation for accidents, and recognition of their right to organize in their own defense. Victories won in that struggle have raised the workers' standard of living and have brought them a small measure of social security. But, even so, American workers' advances have not kept pace with the tremendous increase in the productivity of labor and the abundance which American industry and agriculture are equipped to provide for all the people of this country. They did not prevent a serious problem of mass unemployment even during the "prosperity" years of the 1920's.

## V. HOW SURPLUS VALUE IS DISTRIBUTED

Profit, to the businessman, is the primary purpose of his activity. He invests capital in plant and equipment and wages in order to "make money." He expects to receive from his business more money than he has put into it. And year by year he

reckons his current net income (over and above his current expenditures and the yearly depreciation of his business plant) and he measures the income as a percentage of his total capital investment.\*

The total volume of profit, reaching the capitalists under various forms (as dividends, interest, and rent, or even a rise in capital "values") is derived directly or indirectly from the surplus value produced by workers. Businessmen fight among themselves over the distribution of the great mass of profit. The fact that some gain while others lose in this struggle within the capitalist class tends to conceal the fact that all capitalist income is derived from the surplus product of the workers.

Employers and investors do not admit the existence of surplus value. They accept income derived from workers' surplus labor, but they think of it as the product of capital itself. For capital, to them, is a magic fountain of wealth, from which profit gushes forth for those who know how to coax it and control it.

Actually, as Marx has abundantly demonstrated, capital is primarily a social relationship through which surplus value, produced by workers, is drained off and directed into the pockets of those who have investments in factories, mines, railroads, electric utilities, shops, banks, land, and buildings. But the underlying source of capitalist income is hidden by the intricate mechanisms through which the surplus value is distributed.

Right at the factory there begins this process of transforming surplus value into capitalist profit. For when factory owners are setting the prices at which they will offer their products for sale, they do not think in terms of appropriating the surplus value produced by their workers. They take account of prices

\* Sometimes a concern finds it more convenient to compare its current net income with the total volume of gross receipts. So some corporations which were making very high profits on war orders tried to avoid publicity on the rate of profit in relation to their total capital. Instead they told the world what a small percentage of their huge gross income stayed with them as profit. They hoped that when the question of federal taxes on corporation profits came before Congress the unwary reader would forget how high their profits were in relation to capital invested.

charged by their competitors, or of prices of other articles which they hope to displace by a new product. They reckon their costs, including wages paid, materials, and supplies, and depreciation of buildings, machinery, and equipment. All these they add together as the "cost of production." Then they hope that selling prices will repay all their costs and leave a margin sufficient to provide at least the average rate of profit on the total capital they have invested.

A selling price that covers "cost of production" plus average rate of profit, Marx calls the "price of production" as distinct from the actual value embodied in the individual product.

Unless he has obtained some sort of monopoly power, each producer strives to underbid competitors and increase sales without reducing his rate of profit. This he can do only by cutting his cost of production. Further, if he can reduce his costs and hold his market *without* price cutting, he will obtain a rate of profit that is higher than the average.

These continuous efforts to underbid competitors or to push profit above the average have served to stimulate the tremendous technical advance achieved under capitalism.

A slightly different kind of competition serves to average the rate of profit within the country as a whole. Industries bringing higher profits than others attract new capital which moves into them and offsets, by sharper competition for the market, the conditions which permitted profits to rise above the average. Where possible, of course, monopoly has stepped in to maintain high prices and high profits through control of natural resources (as in iron and copper), or control of essential patents (as in electrical manufacturing), or control of important outlets through interlocking interests (as in the manufacturing of railroad equipment and in the railroads themselves). But in so far as monopolies succeed in maintaining a profit that is above the average, their high profits are inevitably offset by profits below the national average in other more genuinely competitive industries.

As to what determines the level of the average rate of profit,

the haziest ideas prevail outside of Marxist circles. No one disputes the effects of competition and monopoly. And everyone notes that profits rise on the upward curve of the business cycle and drop sharply with crisis or depression. But why the average rate of profit during, for example, the 1820's and 1830's was higher than the average rate of profit between the two world wars of the twentieth century is a riddle to which only Marxist analysis gives the key.

Marx made plain that during any given period the total profit (under whatever name it reaches the capitalists' pockets) is roughly equivalent to the total surplus value produced and converted into money. Actually, of course, one employer receives a return that is larger than the surplus value produced by his workers. Another receives only part of the surplus value which his workers have produced. A third, whose workers have also produced surplus value, finds such difficulty in selling the product that his operations bring only losses instead of profits. Also the highest profits may go to the industries or concerns where the ratio of surplus value to total capital is below the average. And vice versa: the lowest profits may go to backward concerns or the less highly mechanized industries where the ratio of surplus value to total capital is above the average. Yet all this apparent confusion does not alter the basic fact that *the total surplus value newly produced by human labor is the one reservoir of profit for the capitalist class. And the ratio of this total surplus value to the total capital is the inescapable basis of the average rate of profit.*

We have seen increasingly vigorous and ingenious attempts at monopoly control of prices. But the growth of monopoly power has not prevented a decline in the average rate of profit. For even while great corporations have expanded and prospered, and fabulous fortunes have been built from capitalist industry and finance, the total mass of profit has not kept pace with the expansion of total invested capital.

This long-time trend has been generally recognized, but, we repeat, only the teachings of Marx reveal the profound contra-

dictions within capitalist economy by which the trend can be explained.

Everyone knows that the drive for profit leads the industrial capitalists to seek technical improvements which cut their costs for any given product below its current average costs and which thereby give them, temporarily, higher profits than their competitors. These improvements increase the employer's investment in constant capital and make the workers' labor more productive. But then, as competitors follow suit, the average cost of each unit of the product is reduced. And not only has the total value of each unit of the product declined, but its composition is changed. Value newly created by human labor has been cut more sharply than the value transferred to the product from machinery and equipment and raw materials.

As this process goes forward and gathers momentum in one industry after another, the total investment in productive equipment increases far more rapidly than the investment in wages for the purchase of labor power. And at the same time, the new products include relatively more value transferred from machinery and materials and relatively less value newly created by human labor.

In this broad trend, which is obvious even to the casual observer, we see one of the basic contradictions of capitalism. For it is at once the result of the inner drive for profit and the cause of decline in the average rate of profit.

Employers have done their best to offset this trend toward a lower rate of profit by trying to obtain for themselves a larger share of the value newly created by human labor. They never admit that they are drawing unpaid surplus value from their workers. They never admit that this is the source of their profit. But they have given all possible resistance to the workers' long-continued struggle for shorter hours and higher wages. Workers' victories have been countered by the employers with ingenious methods of speeding up and intensifying the workers' labor. Capitalists have tried to wring from the industrial worker in his shorter day and shorter working life all the value he

might formerly have produced in a longer span of working hours and working years. They have increased the total value embodied in newly produced commodities. And yet the most skillful efficiency engineers could not increase the total *new* value or the total *surplus* value produced by the workers as much as they have increased the expanding mass of capital.

Of course rate of profit is affected also by other elements in the production and realization of value. Some developments have tended to increase the rate of profit while others have tended to reduce it. A great speeding-up of transportation and communication had been accomplished before 1870 by the use of steamships, steam railroads, and the electric telegraph. These had reduced the time required for realizing in money the values produced by industry. And Marx shows in some detail how, *when all other conditions are the same*, a capital turned over two or three times a year obtains a higher rate of profit than a capital turned over only once a year. Contrary trends operating to lower the rate of profit have included, most conspicuously, the increase of unproductive labor involved in the sale of commodities. This trend, noted by Marx seventy years ago, has been greatly sharpened by the tremendous expansion of advertising.

All such changes, increasing or reducing the rate of profit, are however always intertwined with the basic relationship between the total volume of surplus value and the total investment of capital.

This raises other questions on which Marx has clarified our ideas. Do all wage workers produce value and surplus value? If not, where do the profits come from for the great metropolitan stores which are obviously capitalist concerns? And for bankers and other capitalists who have no share in the actual ownership of concerns producing commodities?

Marx makes very plain that many categories of wage workers are not producing surplus value. But to the capitalist the selling of his product is no less important than production itself. For the value (including surplus value) embodied in all sorts of commodities is useless to the capitalist until these commodities



are sold. Their value must be realized in money. Necessary storage and transportation of the product from the factory to the ultimate consumer involve a genuine addition to its value. But much of the labor and equipment required for the selling of a product are merely "expenses of circulation," as Marx puts it, which have to be met from the surplus value created in the production of the commodities.

As selling becomes a specialized business, which buys commodities from the producer at wholesale prices and sells them to the ultimate consumer at higher retail prices, the profits of the merchant are obviously derived from the difference between these two sets of prices. But still this does not mean that the merchant's workers have necessarily increased the value of the commodities. Such expenses of circulation as display and advertising add nothing to their value or their price of production.

Actually, the producing concern which sells to agents or retailers instead of reaching, itself, the ultimate consumer, thereby cuts down its own expenses of circulation. It also reduces the time required for the turnover of the factory capital. It is therefore able to function with a smaller capital than would otherwise be required. At the same time, the specialized trader is investing his separate capital solely to carry on the process of reaching the ultimate consumer. And when the factory gives the trader a discount, it is sharing with the trader part of the surplus value produced by the workers in the factory.

All the non-productive expenses of circulation, including merchants' display and the wages of salesmen, are covered, in the last analysis, from surplus value produced by workers who manufacture or transport the commodities. The capital invested in production of value and the capital invested in the realization of value both draw their profits from this same reservoir of surplus value. And both receive, in the long run, profits which hover about the current average rate of profit.

Somewhat further removed from the great social reservoir of surplus value are the bankers and other investors who draw off capitalist income in the form of interest and landowners who

draw it in the form of rent. For neither the bankers, the investors, nor the landowners are directly concerned with producing and selling commodities which embody surplus value.

Interest, in the capitalist world, is paid for the use of borrowed capital. The banker serves the owners of business concerns by gathering in funds belonging to widely scattered individuals and advancing from these funds loans or credits which supplement the capital owned by the business men themselves. For business credits and loans, the borrower pays as interest part of the profit which he expects to receive from using this borrowed addition to his capital. Therefore the average rate of interest on business loans is always, in normal times, lower than the average rate of profit. (In time of business crisis this situation may be reversed in certain cases. But in the long run the average rate of profit is always higher than the average rate of business interest.)

Of course, there is still another type of lending which preys upon the difficulties of the low-income groups. This appears in the high interest exacted on the deferred payments of installment buying and on emergency loans granted against wages or small salaries. In New York City, for example, one loan company advertises that its assistance will cost the worker *only 2½ per cent per month* on outstanding amounts under \$100 (or 2 per cent per month on larger sums), while principal must be repaid regularly in not more than eighteen monthly installments. Such consumption loans obviously draw their interest not from surplus value but from the wages of the working class.

As industrial concerns expanded beyond the resources of even the wealthiest individual, they developed as corporations. These have not only brought together groups of capitalists but they have drawn in for investment the money savings of professional men and women, salaried officials, and a small topmost layer of the wage workers. This is done under two different forms.

Corporations issue bonds which represent long-term loans from the investor to the corporation. On these loans the company pays the bondholders a fixed rate of interest. Interest pay-

ments appear as charges against the corporation's total operating profit. And all interest must be covered before the company's "net profit" can be reckoned.

Corporations' basic capital is gathered through the sale of shares of stock. And stockholders receive their dividends from net profit remaining after interest and rent are paid and reserves are set aside for depreciation and other purposes. If current operations show no such net profit, dividends may be paid from reserves accumulated in previous years. A great deal has been said of the widespread ownership of corporation stock. Workers have been deliberately encouraged to buy small holdings of stock (as an antidote to the growth of class consciousness in the working class). But the total number of Americans owning corporation stock is estimated as only about three million persons, or roughly 2 per cent of the population.<sup>16</sup>

Although rent, like interest, must be covered before the net profit can be computed, rent is different from interest. Interest is paid for the use of borrowed capital. Rent is paid for the use of land or natural resources which, apart from labor already embodied in them, have no value. Rent (or royalties) can be demanded because the supply of land (and of natural resources under the surface of the earth) is not unlimited. This fact gives to the landowner a kind of monopoly power in relation to those who need his land for working or living. It enables him to obtain rent from those who wish to use his land (or royalties from those who wish to extract minerals from it). When the owner wishes to sell his land, he can obtain a price for it, based on the rent which the buyer might expect to gather from owning the land.

Ground rent was originally the form under which landowners extracted the surplus product of their tenants' labor on the land. As the western world was emerging from feudalism, peasants began producing for the market instead of sharing their product or their labor time with the feudal lord. Money rent was gradually substituted for the old serf payments in kind or in labor. Small farmers who employ no wage labor still pay this simple

form of money rent which transfers to the landowner much of the value produced by the farmer's own surplus labor.

As farming developed further on a capitalist basis, the employing farmer, who was himself drawing surplus value from wage labor on his farm, still had to put into rent (or into equivalent savings for the purchase of land) a considerable part of the total surplus value which he and his wage workers produced. But like the industrial employer he began to think of his income as profit on his investment, and to hope for the average rate of profit on his farming capital as a net return after payment for the land.

This could actually be obtained when farm products were sold at prices approximately equal to their value. Technical development and the investment in farm equipment lagged behind the technique and the per capita investment in industry. So the portion of newly created value has been relatively greater in farm products than in industrial products. When this value was fully realized in the sale of farm products, the farmer could cover his living expenses, plus an average profit on his investment in farm equipment of various kinds, and still have a margin of surplus value available for rent on farm land.

Money rent in towns grew from similar roots. Where towns were part of an old feudal domain, the town artisans paid the landlord for the use of a dwelling, and this payment included ground rent drawn from their surplus product. With the growth of wage labor in workshops completely outside the dwelling, profit derived by the employer from the surplus labor of his workers took precedence over rent as the primary form of exploitation. But the power of the landlord persisted and he continued to draw off, as rent for the workshop, part of the surplus value produced by the workers. He also exacted from the workers for their dwellings rental payments swollen by ground rent far beyond a fair price for the housing.

The modern business concern regards its payments for rent as costs of operation. And where rented buildings are involved it is difficult to disentangle the sums which repay the landlord piece-



meal for genuine value embodied in the building and the sums which pay for the privilege of occupying a fraction of the earth's surface. Engels summarized the elements in building rentals as follows:

"(1) a part which is ground rent; (2) a part which is interest on the building capital, including the profit of the builder; (3) a part which is for costs of repairs and insurance; (4) a part which has to amortize the building capital inclusive of profit in annual deductions according to the rate at which the house gradually depreciates."<sup>17</sup>

Even while the tenant buys the use of the building and enables the owner gradually month by month and year by year to realize its value in money, the tenant is also paying, as part of the rent, sums which represent ground rent, based solely on the monopoly power of land ownership. For business buildings this payment of ground rent comes out of the surplus value produced by the workers. For dwellings it comes out of individual incomes, which may be capitalist incomes, derived from surplus value, or workers' incomes received (as wages) for the sale of the workers' labor power.

In cities and towns with expanding population, ground rent becomes an increasingly important element in total rental payments. The landowners' monopoly is enormously strengthened by the pressure of demand for dwellings and business sites. Also landlords commonly include in their building charges a very high allowance for depreciation. Long after a building's actual value has been completely realized in money, they are often able to obtain building rentals which more than cover their current costs. All this will, of course, depend on the demand for the facilities offered but, in general, payments for older buildings reflect chiefly the strength of the landlord's monopoly position as owner of a piece of the earth's surface. Tenement dwellings, forlorn and completely outdated according to standards of decent housing, are notoriously profitable. Here the landlord obviously exploits the lowest paid workers, not by appropri-

ating surplus value but by monopoly pressure on their inadequate earnings.

Modern ground rent is made up of two parts. "Absolute" rent represents the basic monopoly power of private ownership of land. "Differential" rent, over and above the "absolute" minimum, reflects all sorts of variations which make one piece of land more productive or more profitable than another.

For farm land, the natural quality of the soil, the question of water supply, and the distance from market outlets are of primary importance. Also when land has been cleared or drained or the soil has been enriched by human labor, the landowner obtains a higher ground rent, so long as the results of such labor continue to be effective. Wherever past labor or the nature of the land increases the productivity of farm labor and cuts the farmer's costs for commercial farming, the differential rent draws off to the landowner the higher return resulting from these advantages and supposedly leaves the farmer with a chance to obtain the average rate of profit on his farming capital.

In towns and cities, location and general social development play an important role in the differences among rents and land prices. Suburban commuters pay more for land accessible to a public water supply and electric light lines than for land in "unimproved" areas. Distance from the city and the kind of train or bus service available also affect suburban rentals and land prices. In cities, ground rent varies from one neighborhood to another according to differences in buildings—their age, the prestige which they convey, and the incomes which they can bring to the owner.

Around these basic forms of capitalist property which draw income from the social reservoir of surplus value—real estate yielding rent, loan capital yielding interest, and ownership capital yielding net profit to individual business men or dividends to stockholders in corporations—there have developed other specialized capitalist activities which are easily understood when these basic relationships are clear. Increasing numbers of capitalists and their employees have had no direct relation with

producing, transporting, or selling commodities. But in finance and banking, lending on real estate mortgage, and trading in stocks and bonds, they have set up innumerable partnerships and corporations which employ an army of clerks and technical specialists.

Like the increased expenses in the circulation of commodities, these activities in the manipulation of capital have tended to reduce the average rate of profit. But even while capitalists carry on their vast game of speculation, in which a few gain and many lose, they are also operating, clumsily and wastefully, a complex mechanism by which scattered capital is mobilized and shifted from one sphere of investment to another. In so far as they perform this service to their own capitalist class, the bankers and brokers—like the traders in commodities—are allowed to draw their quota of profit from the reservoir of surplus value.

## VI. ACCUMULATING CAPITAL

Accumulation of wealth is, of course, much older than capitalist production. One of the greatest fortunes in history was piled up in the fifteenth century by the Bavarian merchant-banker Jacob Fugger of Augsburg and his son. In our own country, long before the development of full-fledged capitalist industry, the colonies were producing fortunes from landholding, from slave plantations, from shipping, fisheries, and furs, and the trading in slaves. When the colonies broke away from British control, conflict of interest was already sharp between the landed gentry, bankers, and rich merchants on the one side and the working farmers and artisans on the other side.

Notorious in the first year of the young republic was the way the rich grew richer when the new federal treasury assumed the debts incurred during the Revolution by the several states and the Continental Congress. Alexander Hamilton's plans "given

in confidence to some, were soon whispered among the politicians and the merchants of New York, Philadelphia, and Boston."<sup>18</sup> But the news was slow in reaching the countryside, and meantime enterprising merchants had dispatched their agents to buy up for next to nothing the supposedly worthless paper held by farmers and artisans far from these cities. Thus wealthy insiders obtained this first issue of federal bonds largely at the expense of others who lost most of what they had advanced for carrying on the struggle for independence.

The public debt of a strong government is, according to Marx, "one of the most powerful levers of primitive accumulation."

"As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state-creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would."<sup>19</sup>

Rising land prices were another source of early capital accumulation in this country.

Even in the nineteenth century, when American industrial capitalism was rapidly developing, rising land prices played an important role in building fortunes for those who had some funds and were smart enough to buy in the right places. Many famous names are involved. Best known are such great city landlords as Astor, Goellet, Rhinelander in New York; Mellon in Pittsburgh; Longworth in Cincinnati; Field, Leiter, and Palmer in Chicago. Land, for most of them, was only one of several money-making enterprises, but land speculation on a grand scale proved a most fruitful source of accumulation.<sup>20</sup>

Much of the vast public domain of lands west of the Allegheny Mountains was acquired by speculators, railroads and canal interests, mining concerns, and cattle ranchers. Railroad grants, totaling about 168,000,000 acres, were handed out

frankly to encourage the development of transportation. Illinois Central Railroad, one of the first companies so favored, received in 1850 a free gift of 2,595,053 acres, most of which were sold to settlers at \$5 to \$15 an acre. As popular protest brought some attempts at limiting the free handouts to speculators and business interests, the open favoritism to energetic prospectors and speculators gave place to trickery and hidden corruption. (It appears that capitalist wealth comes to its fullest flower only when the roots of a fortune are manured with corruption, crooked dealings, and special privilege.)

Private interests continued to acquire for next to nothing mineral reserves, valuable forests, and large tracts of grazing lands and rich farming soil. These have yielded large returns and represent immense capital values.<sup>21</sup>

Capital is, of course, not merely money and wealth as such. It is money invested with a view to obtaining a share in the total surplus value currently created by productive workers day by day and year by year. It may come as profit, or dividends, or interest, or ground rent. It may come directly from a producing concern or indirectly from trade or banking or speculation. But the source of all capitalist income is tied in with the transforming of privately owned money into the materials and equipment and labor power required for the broad social process of production and distribution. And here, however the invested capitals may have been originally acquired—whether through personal saving, or previous capitalist income, or speculation, or theft—further capital must be continuously accumulated. For whether we consider the technical apparatus of production and distribution or the capital invested in this apparatus, we are concerned with a dynamic and continuing process.

To carry on the productive process without interruption, capital must be always at hand for buying fresh labor power and fresh materials, and it must be accumulated day by day, month by month, and year by year for ultimate replacement of machinery and buildings and all other equipment.

Assuming stability of prices and a ready market for com-

modities as they are produced, this is all fairly simple. As goods are sold, the gross return provides fresh funds for the purchase of labor power and materials, and for depreciation reserves which, while replacing the value transferred to the product, will ultimately provide for new equipment. Normally these charges can all be covered and still leave an operating profit from surplus value produced by the workers.

If we take our capitalist world as a whole, this is in a very real sense a continuous process. For every day each and every part of this process is being carried on. One concern is starting to operate in a very new building. Another is carrying on with no important change in sight. A third is deciding that its equipment is out of date and must be replaced. Within any one concern, new products are loaded for shipment even while reserves of materials are being stored for later use.

In the same way, every phase in the turnover of the total social capital is occurring simultaneously with every other phase. Wages are paid, products are realized in money, new capital is accumulating to replace the old, and new funds are created. Some of these new funds find their way into the pockets of owners and investors and some are held back for expanding the scale of production and improving the technical equipment.

Accumulation of new capital—and especially accumulation for expansion—is a normal and necessary part of capitalist production. The individual thrift of *Poor Richard's Almanac*, with its "Early to bed, early to rise, makes a man healthy, wealthy, and wise," has given place to an inner social compulsion, driving industry toward capital expansion, with ever increasing investment in the technical equipment for producing, transporting, and selling commodities.

This inner drive for accumulation of capital appears in three distinct but inter-related trends in our economic life: (1) the growth of large-scale industrial production; (2) the growth of vast corporations; and (3) the growth of great private fortunes.

1. In industry, as the competitive struggle for markets and profits stimulates technical improvements, it not only shifts a

larger share of the total investment from variable capital (wages) to constant capital (invested in machinery, equipment, land, and materials). It commonly involves also expansion of productive capacity and some increase in total capital. Such additional capital is obtained in several different ways, but always it is drawn chiefly from the reservoir of surplus value. It may be already in hand from undistributed profit accumulated by the concern. It may be borrowed from outsiders against a mortgage on the plant. Where the concern has been owned by one man or a partnership, capital may be raised by forming a corporation and selling stock to outsiders. If it is already a corporation, capital may be expanded by issuing additional stock, or borrowing funds by selling bonds.

The trend toward larger production units is nothing new in our capitalist world. It was so marked even in the 1880's that workers and farmers were demanding regulation of big business, and in 1890 Congress passed its first general anti-trust law. But this did not check the increasing concentration of industry. By 1914, about one manufacturing plant in fifty was turning out each year products valued at a million dollars or more, and these establishments produced nearly half the factory output. The next twenty-five years included the boom period of the First World War, a short post-war depression, a boom again in the 1920's, and a serious crisis followed by long depression and slow recovery in the 1930's. Then in 1939, manufacturing industries as a whole produced more than twice the volume they had produced in 1914 although the total number of production units had increased only about 4 per cent. Small plants with less than \$20,000 of yearly output had sharply declined in number and in relative importance. About one plant in twenty (instead of one in fifty) was now in the group of million-dollar giants. And this group produced more than two-thirds of the total output.

2. Both in manufacturing and in trade, the capital required for successful operation has enormously increased. Small concerns sometimes turn to the corporation form as a means of evading punishment for crooked dealings or personal liability in

case of business failure. But the need for large masses of operating capital has been primarily responsible for the great decline in individually owned business concerns. Railroads, telegraph, and other public utilities were, from the beginning, operated almost without exception by corporations. By 1939 corporations were turning out over 95 per cent of the total manufacturing output in this country.

Just as there is an inner drive toward larger units of production and trade and banking, so there is also an inner drive toward larger and still larger units of ownership and control. This takes its most obvious form when competing concerns merge in a new and larger concern, or one corporation absorbs a smaller competitor. Trusts appear when two or three companies practically control the entire field, or when a corporation, either directly or through subsidiaries, controls the sources of its necessary materials or important outlets for its product. The largest American corporations (those having 50 millions or more of total assets or liabilities) are a very small group but they hold tremendous power. Numbering only 737 out of 412,759 corporations in 1939, these largest companies had considerably more than half (55 per cent) of the total corporation wealth.

Large concerns by sheer size and prestige obtain several advantages over their competitors. It is easy for them to obtain credit, or to sell additional securities, or to secure favors and monopolistic advantages in the market. And when the mass of capital is very large, even a *low rate* of profit yields a *large volume* of profit and continues to provide resources for further accumulation and expansion. Actually, in the crisis years (1931 to 1933) it was only the very largest companies which, as a group, showed any net profit from their operations.

3. In a very real sense the United States was in the nineteenth century the land of opportunity for widespread accumulation of personal wealth. Hundreds of thousands besides the outstanding multimillionaires shared in the rising land prices. When a business could still be operated with little capital, uncounted numbers were able to climb from worker to em-

ployer. And much private wealth was accumulated in every industry supplying commodities which proved necessary or popular in American living, or equipment which furthered technical development in industry or agriculture.

Competition has been sharp and often tricky and unfair. In the hurly-burly of progress some fortunes are built on the ruins of others. Possession of wealth is not in itself a guarantee of power to accumulate more wealth, but wealth plus success in the competitive battle is a dependable formula for the grand-scale accumulation of capital. A few of these American fortunes derived from industry and banking have become household words throughout the world.

Even where these wealthy families have drawn in outside capital by incorporating their concerns, they continue to hold a strategic position. Sometimes, as in the House of Morgan or the Ford Motor Company, they have created closed corporations still entirely owned by a small inner group. Others, like the du Ponts in chemicals, Rockefeller in petroleum, Mellon in aluminum, have through open corporations drawn in thousands of outside stockholders, while their own holdings are large enough to assure continued domination within the company.

As stocks and bonds became a general form of investment, trading in such securities developed as another important source of gain, especially for those who have knowledge of business affairs. In the prosperity of the 1920's, stock trading drew tens of thousands of men and women who had no understanding of business forces to join in the game of stock speculation. Some gambled and won, but mostly these "lambs" were devoured by the "wolves" who had rich pickings from their losses. Stock exchange profits, combined with feverish activity in business, brought a tremendous temporary increase in large incomes. During the last two years of the boom (1928 and 1929) more than five hundred persons admitted in their income tax returns personal net incomes of one million dollars or more. More than a hundred thousand reported from twenty-five thousand to a million dollars in net income.

These figures shrank rapidly in the crisis and depression. Even for the wealthy, the speed of personal accumulation was temporarily checked. Mass unemployment and the slowing down of business reduced the total surplus value available.

Profits and incomes have increased again during the Second World War. Even in 1942 (latest individual income data available), 88,471 persons admitted net incomes of \$25,000 or more.

Thirty years ago, after long continued popular pressure, some check on private accumulation of wealth was made possible by the Sixteenth Amendment to the Constitution. This was ratified in 1913 and permitted a direct federal tax on personal incomes and corporation profits. Since 1916, such direct federal taxes have been enforced. But even before the United States was drawn into the Second World War, almost one-third of the total revenue from personal income taxes was drawn from incomes of less than \$5,000 a year. And in 1942 such moderate incomes were paying 48 per cent of the total income tax on individuals.

In the course of the past quarter century, reformers have succeeded also in obtaining much fuller reports than formerly on corporation affairs, including stockholdings of directors and officials. Regulation of stock trading was greatly stiffened. When we were drawn into the Second World War, corporation profits rose to unprecedented heights. President Roosevelt—himself a very wealthy man—proposed that "excess profits" should be much more stiffly taxed than ever before. He also proposed that individual net income after taxes should be limited to \$25,000 a year. But the forces of reaction in Congress vigorously resisted such proposals.

Furthermore, Congress has provided that any concern whose profits during the first two years after the war fall below the minimum on which excess profits taxes would be payable shall receive refunds from the federal treasury. This "carry-back" provision will neatly cushion the post-war adjustments for the business world.

Meantime, long before the present war, many of the greatest fortunes had scurried away to hide under cover of distribution

among the rich man's immediate relatives. Up to 1941, the number of million-dollar incomes admitted in income tax returns had never again approached the figures of the boom years. But the old saying, "Them as has, gits," is still profoundly true.

## VII. CRISES

Capitalist development is never smooth and straight. While our colonial merchants and farmers had no "business cycle" to worry them, they were restricted by the mercantile monopolies which controlled official policy in the old country. Only through the Revolutionary War did they win their economic freedom.

The new American independence was not fully recognized by the mother country and conflict with British shipping and British traders continued. This flared into open hostility in the War of 1812. From the setting of an embargo policy by President Jefferson (in 1806) to the end of the war (in 1814) American ship-owners and merchants faced serious uncertainties and heavy losses. But no broad economic crisis developed, for these losses were countered by rapid advance in the inner economy of the country. New manufacturing establishments were springing up in the seaboard states, and much new agriculture and commerce were developing beyond the Allegheny Mountains.

Such rapid capitalist expansion, however, introduced a new element of instability, and in 1819 this country went through its first full-fledged business crisis, involving not only the merchants but also many of the new manufacturing enterprises, land speculators, and banks.

Thereafter prosperity and crisis, full employment and idle masses, "boom and bust," became for the American people the familiar contrasts of the business cycle. From peak to peak and crash to crash, the intervals were growing shorter before the

First World War. But they maintained a certain rhythm of prosperity, crash, depression, recovery, prosperity, crash, depression, recovery, prosperity, crash, and so on, like a wheel forever turning and gaining speed as it turned.

This familiar cycle grew out of the inner contradictions within the capitalist system. Most obvious has been the conflict of interest between wage workers and employers, with the capitalists' thirst for profit taking precedence over full employment and high purchasing power for the workers. Back of this has been the underlying fact that the essentially social process of production is subject to control and ownership by private individuals and privately owned corporations.

So there has been a haphazard relation between the production of goods and the purchasing power of the population. With supplies piled up in warehouses, and abundant materials for producing more, millions of people are too poor to replace worn-out shoes or sheets or other basic essentials for a moderate "American standard of living." One classic illustration of this comes from the coal fields in the United States, where a miner's little son asked his mother, "Why don't you light the fire? It's so cold!"

"Because we have no coal. Your father is out of work, and we have no money to buy coal."

"But why is he out of work, Mother?"

"Because there's too much coal."

Can crises be eliminated under capitalism? The socialist Soviet Union has shown that broad social planning, loyally carried out in the interest of abundance for all, can achieve a steady, high level of production and employment. But such planning is completely alien to the motives and the structure of capitalism.

Marx pointed out with special emphasis that in the business cycle the factories begin to close down precisely at the peak of production when few if any are unemployed and wage scales are higher than usual. And it is not the textile mills and shoe factories and meat packing plants but the steel mills and other sections of "heavy" industry which lead the shut-down of in-



dustry in a business crisis. For every crisis is rooted in the maladjustments of the process of producing and realizing value. And these maladjustments are most acute in the great sector of industry concerned with producing the means of production.

Actual crisis may appear first in the financial field. So our great crisis and depression of the 1930's broke upon the world in the panic of October 29, 1929, on the New York Stock Exchange. But some months before then production had begun to slip down from the unprecedented peak of prosperity.

Through trial and error in the never ending quest for profit, and at the cost of terrific waste and human suffering, capitalism even without social planning has come near to achieving a very rough balance between the volume of consumers' goods produced and the purchasing power of workers and capitalists. It has never yet provided all the consumers' goods that are *needed* by the workers and their families, just as it has never yet provided for them assurance of an adequate living wage with security of income when work is slack. But from the viewpoint of total production and realization of value, the sector of industry producing consumers' goods has operated a little more smoothly than the sector of industry producing the means of production.

Far more difficult to stabilize in the chaos of capitalism has been the production of steel and looms and ball-bearings and locomotives and ships and electric dynamos and thousands of other commodities required for the production and transportation of the commodities that people use in their everyday living. Year by year each industrial concern puts away part of its total income as a depreciation fund for ultimate replacement of basic equipment. It looks also to improvement and expansion of plant. But the actual ordering of new equipment is less regular and less predictable in our economy as a whole than the buying of food and clothing and household furnishings.

When such orders drop sharply and heavy industry begins to close down, this sets off the crisis. Producers of consumers' goods follow suit, slackening production and unloading their commodi-

ties at prices below value. While prices are low, those concerns which are still in a relatively strong position begin to attempt basic improvements for reducing their cost of production. Their orders for new equipment start a wave of renewed activity in heavy industry and this marks the beginning of business revival. Increased employment in heavy industry stimulates a trend toward somewhat higher wage rates and, of course, raises the total workers' income. All classes are ready to buy more consumers' goods. Prices move upward and a short period of prosperity blossoms forth.

Workers employed by the day or the week carry the chief burden of an economic crisis. With wage rates which barely provide a fair standard of living when a worker is fully employed, the irregularities of the business cycle have always brought extreme anxiety and suffering to the working class. Our limited unemployment insurance won by workers' struggles and set up under joint federal-state social security laws in the first years of President Roosevelt's administration marks a new recognition of the worker's right to maintenance when has no job. But the provisions are very far from adequate, both in their coverage and in the payments allowed.

Farmers are directly affected by the business cycle. When markets are booming, farm real estate rises and heavier debts are incurred for expansion. As workers' purchasing power declines, farm prices and income slide downward also and, if recovery is slow, foreclosures and crisis sweep the countryside. Farming has also its own special crises when bad weather cuts down production.

All business men dread the collapse of prosperity. For even those who pull through without bankruptcy find their profits shrinking or disappearing when demand and prices are slipping downward. Many of them subscribe to the costly business services whose forecasters scan the horizon like mariners on a stormy sea. These specialists watch the orders placed for rails and industrial equipment. They watch the trend in commodity prices and in prices on the stock exchange. And when they spot a tiny

cloud approaching the bright sun of prosperity, they warn their clients. Then manufacturers can slacken their pace. Traders on the stock exchange can unload their more speculative holdings before the unwary "public" catch the signals of coming trouble. Bankers can stiffen their requirements for extending credit or raising new capital. The very measures by which each capitalist tries to save himself combine to precipitate a crisis.

Crises have always tended to cross national boundaries for trade and foreign investment have been a part of capitalist development. Wherever a serious disturbance may originate, it involves business interests in every other capitalist country.

While these cyclical crises kept returning with an irregular and uncontrolled persistence, conflicts inherent in the economic system were preparing the far more serious problems which constitute the general crisis of capitalism. Ups and downs continued, with bad years and years that were somewhat less bad. But the economic crises were more severe than formerly, and "recovery" left a wide reserve of idle plant and jobless workers.

The most important factor in creating this general crisis of capitalism is the restricted consumption imposed by capitalism upon the working class. Competition among capitalists and the tremendous technical progress stimulated thereby have greatly increased the volume of constant capital (invested in machinery, equipment, and materials) with a relative decline in variable capital (wages paid to the working class). While raising to record heights the productive power of industry, capitalism has lagged seriously in raising the workers' purchasing power.

Mass unemployment became a serious and persistent problem. After 1913 there was no full employment of manpower in the capitalist world except when great masses of young men were mobilized for military service. Even during the "prosperity" which preceded the economic crisis of the 1930's, about four million workers were unemployed in the United States. And at the depth of that crisis (in 1932-33) the numbers unemployed grew to the unprecedented figure of seventeen million, or about one-third of all wage workers in this country.

Increasing poverty among farmers further limited the home market. Farm production and farm income were affected by a decline in export outlets for American wheat, cotton, and meat, and this decline was not adequately offset by expanding outlets here at home. Large-scale mechanized farms, with high productivity of farm labor, had cut down the price of production while raising standards of quality. Furthermore, paths from the farm to the ultimate consumer were commonly controlled by powerful traders and processors who could hold farm prices below a fair level. In spite of considerable advance in farm co-operatives, many of the medium-sized family farms found it more and more difficult to avoid a heavy burden of debt. And most of the smallest units were almost entirely crowded out from commercial production.

Industry, also, when it recovered from the post-war economic crisis of 1921, could not utilize its full productive capacity. In 1923, for example, which was a "good" year, with rising prices, the actual output of manufacturing establishments in the United States was less than three-fourths of the "maximum possible output."<sup>22</sup> A less comprehensive study for the peak year, 1929, showed for 29 selected industries an average of only 80 per cent utilization.<sup>23</sup> Both these estimates understate the idle plant since no account was taken of establishments which had been completely closed down during the entire year and were therefore assumed to be "obsolete."

Such trends have been present in every capitalist country, driving toward sharper contrasts between the strong and the weak and further stimulating the trend toward monopoly control of business and financial forces. Leading groups of finance capital struggled to obtain control of foreign fields of investment to relieve the increasing business instability at home. The First World War itself resulted from the clash of big business interests operating from London, Paris, and New York with their rivals in Berlin who demanded "living space" for *their* imperialist expansion. And between the First and Second World Wars scarcely a year went by without a "minor" war, or some



forcible occupation of alien territory, or military action against colonial unrest.

But imperialist wars could not bring stability even to the business interests of the victorious powers. Instead their problems were further intensified. More capital had been accumulated from the high profits of war industry. More industrial capacity had been created which must find new foreign outlets for its products.

Everywhere, meantime, the workers' movement was expanding. Workers' efforts to better their condition made the class conflicts between workers and capitalists a world-wide political issue. And with the victorious socialist revolution of 1917 from which developed the Union of Soviet Socialist Republics, the Soviet peoples, with their one-sixth of the total land surface of the world, were removed from capitalist exploitation.

Further conflicts between the forces of reaction and the forces of the people were inevitable.

## VIII. MONOPOLY AND IMPERIALISM

Every great capitalist country has shown the same trend toward large-scale production, the same increasing disparity between productive forces and the purchasing power of the people. Dominant wealthy groups have obtained some degree of monopoly power at home and of special privilege in using foreign areas as sources of raw materials, as markets, and as fields for capital investment.

Long before our present era, the world had seen monopolies. The great trading companies of the handicraft era enjoyed control of distant ports and strategic trade routes. And there is nothing new in the broad fact that subject peoples have been conquered by stronger powers, just as there is nothing new in the fact that those who toil are exploited by others who enjoy the fruits of the toilers' labor.

But monopolies and empires of our modern world have their own distinctive quality. They express a high degree of capitalist development within the imperialist nations with industrial production concentrated in relatively few very large concerns and an even greater centralization of economic power in still fewer groups of finance capitalists.

Modern imperialism includes world-wide investment of capital and this has given the finance capitalists of the dominant nations a decisive voice in the economy of "backward" areas. Here they have utilized such natural resources as provide minerals and raw materials and food products for their own people and their highly developed industries. They have drained wealth away from the colonial and semi-colonial countries, leaving them without the capital for well-rounded industrial development. Increasing population is backed up on the land, struggling to exist from exhausted soils. And colonial workers have accepted wages unbelievably low in comparison with our American standards. For these "backward" peoples are trapped by the imperialist powers in a vicious circle of extreme poverty and inability to produce such consumer goods as the workers in more developed countries consider necessary for a bare minimum of decent living.

Forms through which monopoly power and imperialist expansion have functioned vary in detail from one country to another, but these underlying principles and trends have been common to all.

Why capitalism has developed in this direction is clear. Competition drives the capitalists toward technical progress, which involves ever increasing investment in the equipment for production. As this necessary equipment becomes more costly and more complex, the scale of production expands and more and more capital is required as a minimum for profitable operation. As this process is repeated time after time, access to great sums of capital becomes a prime necessity for any industrial project. Smaller operators are forced out and the numbers of competing concerns are narrowed down.

Also as more money is tied up in each important productive unit, the owners strive deliberately to prevent competition. They seek some form of monopoly control over materials used and over such technical progress as might make prematurely obsolete the plants in which vast sums have been invested. They look for control of resources in undeveloped areas where wage scales and the standard of workers' living are lower than in the industrialized countries. They seek also privileged outlets so that the price of the product may be deliberately held above its value. The demand for special foreign outlets increases as the productive power of capitalist industry expands more and more beyond the restricted consuming power of the people.

So "trusts" emerge which hold a dominating position within an industry. Some of these develop as "vertical trusts," controlling every stage in production from mines to the finished product. And their interests reach far beyond the boundaries of the country in which they originate.

In the basic industries of the United States today, it is common to find a few very large corporations which together dominate the field without actually accounting for the entire output. So, for example, in 1937, there were at least nine hundred products in each of which the leading four manufacturers accounted for 75 per cent or more of the total. And for each of at least fifteen products and services one company alone dominated the industry. These included certain minerals (aluminum, beryllium, nickel, magnesium, magnesium alloys, molybdenum), optical glass, shoe machinery, glass container machinery, Pullman cars, trans-oceanic aviation, telephone service in the United States, and three kinds of international communications: trans-Pacific cable, radio telegraphy to twenty countries, and radio-telephony.<sup>24</sup> Since 1937, the two telegraph companies which provided telegraph service within the United States and trans-Atlantic cable service have merged into a single corporation.

Notably absent from these lists is the refining of petroleum, which was the notorious Rockefeller monopoly of the nineteenth century. In 1911, the original Standard Oil Trust was broken

up (under the anti-trust laws) into several distinct corporations in each of which Rockefeller retained a strong minority interest. And meantime, the discovery of rich new oil fields, along with a rapidly expanding use of petroleum products, had given opportunity for the wealthy Mellon family, and the British-Dutch oil trust, and others to build strong rival oil concerns in the United States. Today important oil refining companies in this country are too numerous for any four to produce 75 per cent of the total output. But they carry on a greatly modified form of competition. In spite of rival advertising and retail outlets, all the big oil companies have a friendly exchange of patents and do not attempt to underbid one another's prices.

In the scramble for oil reserves, meanwhile, each "advanced" country has backed up the prospectors of its own oil capitalists and their claims in distant lands. "Oil diplomacy" has been an important factor in relations between the United States and Mexico. And loss of the nationalized Russian oil reserves, in which British capitalists held large investments, had much to do with the British hostility to the Soviet Union, persisting long after the Soviet Revolution was completely stabilized. Japan's desire for its own "independent" oil supply had much to do with its drive for the Dutch East Indies in World War II.

Standard Oil, in its earlier years, was one of the few corporations in the United States which was able to expand enormously without drawing outside capital into the business. Among the largest two hundred non-banking corporations in 1930, only twelve were "privately" owned (up to 80 per cent of their capital) by the family or the intimate group which had started the business. Even the Rockefeller and Mellon oil companies were no longer in this classification.<sup>25</sup>

Many concerns have grown by absorbing smaller competitors or by the merging of rival companies. And expansion has commonly involved the use of additional capital from outside investors. So the production specialist became secondary to the financial specialist who could underwrite an issue of stock or of bonds and sell the new securities to "the public."

Banking had originated as the merchants' tool for commodity exchange. And from the earliest period of capitalist production, bankers had been advancing short-term loans (credit) to the owners of industry. As international trade developed and more raw materials were brought from distant lands and more of the finished goods went to distant markets, credit played an increasingly important role. At the same time, business partnerships were giving place to corporations, and industrial corporations were developing into giant trusts. So while commercial banks (dealing in short-term credit) were expanding, there developed also a new kind of banker who specialized in mobilizing capital for long-term investment.

Pre-eminent in this field was, of course, the House of Morgan which functioned as both a private commercial bank and an investment firm with offices in New York, Philadelphia, London, and Paris. (Since 1940, Morgan banking operations in this country have been divided. J. P. Morgan & Co., Inc., is now a registered commercial bank, operating without visible relation to the investment houses operated by certain former Morgan partners.)

While bankers were actively financing industry, some of the capital accumulated by big industrialists was being invested in banking. The Rockefeller fortune, for example, built originally in oil refining, now dominates the Chase National Bank, largest commercial banking unit in this country.

Bankers concerned with raising capital for industry, and industrialists functioning in the field of banking, represent the fusion of financial and industrial interests and are the finance capitalists of the present day. Hundreds of men all over the country are active in both financial and industrial affairs, and a small number of these finance capitalists stand out as the controlling figures in our economic life. Through them the biggest banks and corporations which dominate American banking and basic industry are linked together far more closely than they appear to be.

Eight groups of finance capitalists are now held to be the

chief centers of economic power in this country. In 1935, Morgan partners and their close associates of the First National Bank of New York sat on the boards of other commercial banks, of railroads, utilities, and industrial concerns both here and abroad which had, among them, reported assets of over thirty billion dollars. Next in importance are Kuhn, Loeb and Company, New York bankers with large interests especially in railroads and foreign loans, and the Rockefeller interests which also operate chiefly from New York.

The Mellon family, from their Pittsburgh headquarters, control at least two large Pittsburgh banks and half a dozen industrial corporations reaching throughout the nation. They hold valuable mineral reserves abroad. The du Pont family had, long before the Second World War, added to their huge chemical interests (tied in with the British) large holdings in General Motors Corp. and U. S. Rubber Co. and in banks in Detroit and Wilmington.

In addition to these five groups centered in a banking firm or a great industrial family, three regional groups are now considered to be independent centers of power. In Chicago, eleven closely interlocked banks and industrial companies and utilities have assets totaling in 1935 over four billion dollars. (This was slightly more than either Mellon or du Pont.) Groups similar, but somewhat smaller, function in Boston and in Cleveland.<sup>20</sup>

Even such financial groupings understate the influence of finance capital in our economic life. Actual interlocking of directors and of financial control is supplemented by such informal organizations as trade and general business associations, and by outsiders' fear of a bankers' boycott or some such economic reprisals if they oppose the most powerful capitalist interests.

This modern structure of American economy had been taking shape since the middle of the nineteenth century. Financing of the Civil War (1861-65) and the great railroad-building era which followed had laid the foundations of investment banking as an industrial power.

After three decades of raising capital for expanding industries,

the House of Morgan in 1892 promoted the General Electric Company as its first merger of manufacturing companies. And within the next ten years Morgan organized combines in at least three other basic industries: U. S. Steel Corp., International Harvester Co. and the International Mercantile Marine Co.

In general, the 1890's marked a new stage in the growth of American capitalism. In that decade American industry for the first time outstripped American agriculture in value produced, and from 1894 the United States was turning out a greater volume of manufactures than any one of its European competitors.<sup>27</sup> Among American exports, manufactured goods were gaining on raw materials and crude foodstuffs. And before 1900, our exports of manufactured and semi-manufactured products not only made up more than half of our total exports but surpassed our imports of manufactured products.

Until the 1890's, also, American railroads and industrial enterprises had depended in large measure on foreign capital. The countries of western Europe lacking at home any vast expanses of undeveloped territory had looked abroad for outlets for capital investment. And even while they were tightening their hold on "backward" areas, they were also pouring capital into railroads and mining enterprises in the United States. By the 90's, however, our dependence on foreign capital had been greatly reduced by the growing accumulation of capital reserves within this country. And at the turn of the century Americans themselves began seriously to compete in the field of foreign investment and imperialist expansion.

As early as 1871, two millions of American capital had been loaned to the Peruvian government (through the House of Morgan). But such early ventures were few and incidental. Even in 1899, when Morgan undertook a \$110,000,000 Mexican loan, he sold part of the Mexican bonds in Germany and Great Britain. But when England needed money for its imperialist war against the Boers (1900-1901), Morgan headed a banking syndicate which sold \$140,000,000 of British bonds to American capitalists.

Until the First World War shifted the balance of economic power in favor of the United States, American capitalists were still borrowing and owing abroad more than they were lending and investing abroad. But the turn of the century was marked by a definite increase in Wall Street's concern for foreign investment and colonial expansion.

Americans already had large sugar interests in the Hawaiian Islands and the West Indies. They were raising sugar and mining iron and manganese in Cuba, a Spanish colony. Beyond these island areas, only South America and Mexico and the rest of the Caribbean countries remained relatively free of domination by the other great capitalist powers. Even here, however, the way was not entirely clear for open domination by American interests.

Under the Monroe Doctrine, formulated in 1823, the United States had stood guard against European intervention in the western hemisphere. But in spite of this, Spain, Great Britain, Holland, France, and Denmark had retained footholds on Caribbean islands. British capital, and to a lesser degree German, Dutch, and French capital, had been poured into South American countries. The three Guianas were genuine colonies and at least Argentina and Uruguay were subject to financial domination by the British.

In our colonial expansion, Hawaii was the first point of attack. American sugar concerns instigated a revolt in 1893 against the native royalty and recommended annexation of the islands. After some four years as an "independent" republic, Hawaii was formally annexed in 1898 and two years later became a territory of the United States. The American market was opened to Hawaiian sugar without a tariff barrier.

The next incident involved Great Britain and Venezuela. In 1895, when British Guiana revived an old boundary dispute with Venezuela, President Cleveland intervened and insisted upon arbitration. His secretary of state, Richard Olney, expanded the old Monroe Doctrine with the statement that "Today the United States is practically sovereign on this continent,

and its fiat is law upon the subjects to which it confines its interposition."

Three years later, the United States declared war against Spain, ostensibly because the battleship *Maine* blew up in the harbor of Havana, capital of Spain's Cuban colony. The Cubans had already been in revolt against Spanish rule, and after the short war was ended, with American victory, the United States occupied the island and promised political independence subject to certain conditions. The Cuban Republic was established in 1902, but the United States reserved a favored position which included the right of intervention "for the protection of Cuban independence" and the granting of Cuban naval bases to the United States.

Under the treaty which ended the Spanish war, the United States not only held full possession of Puerto Rico but it acquired (for \$20,000,000) the Spanish holdings in the Pacific. These included the extensive and valuable Philippine Islands, and little Guam which gave the United States another stepping stone between Hawaii and the Orient.

Shortly after the Spanish war, a convenient "revolution" occurred in northern Colombia, when Colombia refused (in 1903) to grant the United States a 99-year lease on a strip of land across the state of Panama from the Caribbean to the Pacific. Panama declared itself independent of Colombia and obtained immediate recognition from the administration of President Theodore Roosevelt and from the banking house of J. P. Morgan & Co. which became its fiscal agent in the United States. Within a few days, the new republic of Panama had "leased" to the United States in perpetuity a zone ten miles wide for the building and maintaining of the Panama Canal.

As another variation in the pattern of imperialist expansion, the United States obtained additional naval bases in the Caribbean area by treaty with the "independent" republics of Santo Domingo, Haiti, and Nicaragua, and by the purchase of the Virgin Islands from Denmark. Across the Atlantic, on the coast of Africa, the United States has long had a friendly foothold

in the little country of Liberia, whose fiscal and military affairs are managed by men appointed in the United States.

All these openly imperialist outposts are insignificant in territory as compared with the British empire and the areas which have been dominated by other great capitalist nations. They are also insignificant in comparison with the power of American business interests in other countries and areas which are supposedly independent.

Entering later than the powers of western Europe in the contest for colonial expansion, American imperialist power has been expressed chiefly in the form of foreign investment. But this economic penetration of other countries has been accompanied by a more or less veiled political domination of the less powerful "independent" nations. Through control of land and plantation developments, through American-owned mines and smelters, oil wells and refineries, mills and factories, railroads and other public utilities, business interests of the United States have spread a network of economic power from the Rio Grande to the Straits of Magellan.

This process had begun before the First World War, but up to 1914 most of the South American countries were more closely tied to Great Britain than to the United States. When Britain and Germany went to war in 1914, in their titanic conflict as rival imperialist powers, business concerns in the United States seized the opportunity to capture South American markets. And United States investments of all kinds were increased. Except in four countries (Argentina, Brazil, Paraguay, and Uruguay) American capital soon overtopped British. The tremendous development of South American oil, copper, and other minerals has been carried out chiefly by United States corporations. Even in Argentina, Chicago interests have had a firm hold in the meat-packing industry. And before 1930 some eight hundred millions of American dollars had been invested in government bonds of Argentina and Brazil.

A slightly different twist in imperialist domination appeared in relation to China. Here in the nineteenth century Europeans

had obtained certain rights in cities set apart as "treaty ports" or in sections of cities granted as "concessions" to foreigners of one or another nationality. Shortly after the United States had obtained its Far Eastern foothold in the Philippine Islands, the McKinley administration raised the issue of the "Open Door" for American business interests in China. But just at that time a strong antiforeign movement was beginning among the Chinese people. American marines were landed to do their part in protecting the lives and property of the foreigners. For many years thereafter detachments of American soldiers remained on Chinese soil and an American fleet of shallow-draft river gunboats was maintained on the upper Yangtze River.

In 1909-11, the "Open Door" for American capital was made effective. At that time the Chinese government wanted a large loan of foreign capital for building a railroad, and the United States government backed up the demand of American bankers (headed by the Morgan firm) that they should participate on equal terms with British, German, and French bankers in negotiating the loan. Furthermore the Americans won the demand that one-fourth of the rails, materials, and equipment, and the engineering supervision for one-fourth of the total construction should be supplied by American industry.

After World War I, American capitalists acquired a more dominant role in relation to Chinese affairs. But always China maintained its nominal independence, and always in Chinese matters the American interests worked with the British and others. Even in China, however, the imperialists placed their own administrators, most of whom functioned as lordly superiors. Only the Socialist Soviet Union renounced such privileges and showed how undeveloped regions can be aided without exploitation and with full respect for ancient cultures.

Monopoly within each highly developed capitalist country and financial control over less developed areas are two aspects of the imperialist stage of capitalism. A third aspect, no less important, is the tangle of competition and monopoly relationships among the capitalists of rival imperialist nations.

Even while British and American capitalists have had sharply conflicting interests in the Latin American countries, and conflict veiled by the need of common negotiation in China, they have at the same time been closely bound together through the large volume of British capital invested in American industry. And, more recently, much American capital has been invested in British industry. Most of the foreign capital which backed the Americans in our expansion of railroad and manufacturing during the latter decades of the nineteenth century was owned by the British. And it was not by accident that the first banker Morgan, an American from Hartford, Connecticut, began his financial career in London in the 1850's. Not until ten years later (during our Civil War) did his son, J. Pierpont Morgan, open a New York office.

The Morgan shipping combine in 1901 included both British and American interests. Shortly afterwards the new electrical manufacturing companies of the United States and England and Germany were working closely together. And even where no such relationship appears on the surface, there remains the underlying fact that the London firm of the Morgan interests has been continuously active in British industrial affairs. Also important in Anglo-American relations is the strong participation of American capital in the development of Canada, the industrial leader among the British self-governing dominions. Canada has drawn about one-fourth of the total foreign investment by citizens of the United States.

Meanwhile, many industrial links had also been established between American and German corporations. Exchange of patents, subject to certain cartel agreements, had made considerable progress before 1914. But when the clashing business and colonial interests of Germany and Great Britain flared into open warfare in 1914, the dominant elements in American life threw their support to the British.

Then while American industries were piling up profits from supplying war materials to Britain and her allies, American bankers were also profiting from the tremendous capital move-



ments involved. British, French, and German investors were cashing in their American securities, and by the end of the First World War about half of the foreign capital invested in the United States had been withdrawn. But even the funds thus made available to the warring nations were not sufficient to cover the Allies' huge purchases of war materials and clothing and food in this country. So more than \$1.5 billion of bonds of the Allied nations had been sold to private American investors before the United States entered the war in April, 1917. This was entirely apart from the more than \$10 billion later loaned by the United States government to nations that fought against Germany. Most of these loans were expended within this country for war materials and other supplies. (Barely one-fourth of the total loaned by this government has been repaid. Although the debts have never been formally cancelled, default of further payments seems to be accepted as inevitable.<sup>28</sup>)

After the armistice in 1918, the capitalists of the Allied and Associated nations resumed their old business relations with the defeated enemy. Blocked in plans for territorial expansion, German capitalism threw tremendous energy into further technical advance. Patent agreements and cartel arrangements with British and American corporations were strengthened and extended. And when the Second World War began, the network of collaboration and competition among British, German, and American business interests, was even more complex than it had been twenty-five years earlier.

While capitalism had been ripening to the stage of monopoly and imperialism, the workers and the colonial peoples throughout the world were stirring in revolt against exploitation. Three times between 1839 and the First World War, the Chinese had waged war against foreign domination. In India, the Sepoy Rebellion of 1857-59 had warned the British that imperial control must combine its firmness with some appearance of consideration for the subject peoples. In Africa, the defeat of the British General Gordon (killed at Khartoum in 1885) showed that the native peoples were not willingly subjected to foreign rule. It

postponed for some thirteen years the conquest of the Sudan.

And within the great capitalist nations, the nineteenth century had seen the beginnings of working class organization, both as labor union movements for better conditions of work and as political movements looking toward socialism. For several reasons such movements developed more slowly in the United States than in Great Britain, and both British and American trade unions tended to be more conservative than those in the continental European countries. But in 1914, working-class opposition to the First World War as a struggle between rival imperialist powers was expressed in all countries.

Then, during that war, workers throughout Europe suffered great hardships in addition to the soldiers' casualties. A revolutionary situation developed first in tsarist Russia and, eight months after the Tsar was overthrown, power passed (in November, 1917) from the small group of Russian capitalists and feudal landowners to the Soviet government of workers and peasants. Opposition to the war increased among German workers, and they played a large part in the revolution of 1918 which overthrew the German Kaiser and set up a German Republic.

A great wave of colonial unrest spread through many lands in the post-war years. And in each of the imperialist nations a cleavage began to appear within the capitalist forces. Fascist elements sought to hold their power by violence and repression. Others, also recognizing the strength of the popular unrest, were prepared to move toward greater political democracy as a better way of protecting their economic power. Inner conflict between these two groups continues in every capitalist country.

Meantime, the workers' movement has grown in numbers and in political understanding. In 1920, for example, less than four million workers in the United States were members of genuine labor unions. Today American organized workers number about fourteen million men and women. Unions have a strong foothold and are increasing their membership in every basic industry. And a beginning has been made among the eleven million clerical and professional workers.

For many years, the clash of financial interests, resistance to imperialist domination, struggles between labor and capital, and the achievement of socialism in the Union of Soviet Socialist Republics have been the chief forces in human history.

## IX. FASCISM OR DEMOCRACY?

Fascism is the most brutal attempt of the most reactionary elements of big capital to rob the masses of people of such freedom and power as they have already won. Democracy includes the right of the people to throw off that economic subjection to the few which has become the chief feature of the capitalist system. Leading fascist regimes have been destroyed, but everywhere outside the Soviet Union there continues the basic struggle between fascism and democracy.

We have in the United States fascist-minded individuals and organizations which support the divine right of capitalist property and oppose free development of labor's thinking and labor organization. And we have others who really believe in democracy and know that this must include the right of free discussion and free organization toward the bringing in of socialism.

In the first World War, Britain, the United States, France, and tsarist Russia were primarily concerned with undermining the German Empire which was reaching out for added territory and was threatening the economic supremacy of British and American capitalism. Although the Russian front collapsed in military defeats and the revolutionary upsurge of the Russian people, Germany was defeated. Out of the war there emerged the new Soviet Russia, and in British and American policy fear of that socialist nation overshadowed for many years the fear of a restored imperialist Germany.

German workers were aroused by their sufferings in the war and afterwards and were stimulated to action by the Russian Revolution of November, 1917. Germany's military strength

was undermined by anti-war demonstrations, mutinies, desertions, and strikes, which hastened the country's defeat. But in the revolutionary situation of 1918-20, German workers were divided. Their Social-Democratic leaders, who had always opposed the Left-wing groups in the socialist movement, were basically hostile to the new Soviet Russia and maneuvered to prevent a workers' revolution in Germany.

Under the new republic, German capitalism sought recovery in rapid technical advance, combined with extreme exploitation of the workers. Large reparation payments demanded by the victorious powers were not met. And American finance capital (which had a sizable stake in Germany) poured out loans for the rebuilding of industry and the stabilizing of German currency. New political alignments developed within the country. On the Left, the workers' movement gained new revolutionary strength, although the old Social-Democratic leadership was strongly entrenched and retained considerable mass support. On the Right, a new grouping of the most reactionary forces of big business made their long-range plans for setting up a dictatorship and destroying through ruthless terror such political democracy as had already been achieved. Through the skillful use of demagogic slogans the Nazi agents of big business were able to weaken popular resistance and place their "leader," Hitler, at the head of the German state.

The Nazi government, with its extreme German nationalism, its cult of "Aryan" supremacy, and its fake "socialism," based on huge privately owned monopolies and cartels, was welcomed by important elements in Great Britain and the United States. The mob violence used by Nazi squads against genuine working-class leaders and groups for several years before Hitler actually obtained power in 1933 had made very clear the way in which he would serve finance capital in Germany. And one of Hitler's first actions as chancellor was to "co-ordinate," that is, destroy the labor unions. He not only robbed the workers of all freedom but wiped out the achievements they had won through many years of struggle.



Even after Hitler's reactionary and most bloody dictatorship had taken possession of Germany, some British and American diplomats connived at the expansion of German territory. They welcomed Germany's annexation of Austria in March, 1938, although this action was never officially recognized by the American government. At the notorious Munich conference of September 29, 1938, Neville Chamberlain and Edouard Daladier (with full support of their cabinets in London and Paris) endorsed Hitler's plan to occupy the Sudeten provinces of Czechoslovakia. And six months later they made no protest when Hitler declared that Czechoslovakia no longer existed. They evidently thought that Germany would make good use of the Skoda munitions works in Czechoslovakia to strengthen an eastward drive against the Soviet Union.

The Soviet government saw the danger, not only to their own nation, with its new socialist democracy, but to all those capitalist powers which had achieved any considerable measure of political democracy. For years the Soviet Union had tried to stir the British and other members of the League of Nations to adopt some plan for collective security against aggression. But the gentlemen at Geneva had turned deaf ears to the facts set forth by Maxim Litvinov who represented the Soviet Union. The League was disintegrating through its own futility.

Meantime, France, Czechoslovakia, and the Soviet Union had signed mutual assistance pacts. But when Czechoslovakia was occupied by the Nazis, France failed to act, and the Polish government's refusal to permit the Red Army to cross a strip of Polish territory cut off the possibility of aid from the Soviet Union. The solid front of capitalist powers against the socialist power was still unbroken.

So the Soviet Union in August, 1939, protected itself temporarily by a non-aggression pact with Germany. This gave the Soviet people time further to develop their heavy industry and prepare for almost certain attack from the west. A week later, Hitler moved into western Poland, and as Polish resistance crumpled before the Nazi war machine, the Red Army moved

into eastern Poland. This area was heavily populated by Ukrainians and Byelo-Russians who outnumbered the Poles. The people welcomed the Red Army as friends. Only the big landowners and their associates resented it, and fled. Hitler, temporarily observing his non-aggression pact with the Soviet Union, took possession of western Poland and then marched west instead of east.

While the Nazis swarmed over Denmark, Norway, Holland, Belgium, and France, and put to rout a British expeditionary force which had landed on the continent, new lines were sharply drawn within the invaded countries. Open and concealed fascists among the reactionary elements within each country made common cause with Hitler and, fearing the strong Communist movements within their own countries, actually welcomed the Nazi invaders. Many wavered in indecision. Genuinely democratic forces, including the Communists, gradually set up underground organizations which carried on increasing resistance to the Nazis and their native puppets.

In Britain the leadership of "Munich men," who had agreed to Hitler's expansion to the south and the east, was rejected on May 10, 1940, while the Nazis were advancing westward. The people had awakened to the fact that those who dealt with Hitler were bartering away their country. Winston Churchill, who had opposed the Chamberlain policy of appeasement, became Prime Minister.

Hitler continued his aggression and occupied almost all of Europe, subjecting the people and exacting heavy tribute from their resources. Then on June 22, 1941, disregarding his non-aggression pact with the Soviet Union, Hitler opened a broad invasion of Soviet territory. And the very same day Prime Minister Churchill told the world of the British government's epoch-making decision to support the Soviet Union. Two days later, President Roosevelt, on behalf of the American government, pledged all possible aid to that socialist nation as the victim of aggression.

Events had transformed the clash of imperialist interests and

the plan of the reactionary forces for destroying the one great socialist nation into a world-wide war between the fascist powers and the democratic nations.

What are the basic issues at stake in the struggle between fascism and democracy?

Fascism is the most violent and brutal embodiment of the exploiters' determination to oppress and exploit the working class. Opposed to fascism are all democratic forces rooted in the people's determination to manage their own affairs. But between the democratic capitalist nations and the socialist Soviet Union there are important differences. And failure to distinguish correctly between the nature of capitalist democracy and the more developed character of socialist democracy leads to perilous misunderstandings among those who are opposed to fascism.

Our capitalist democracy grew with the release from feudalism. It was the political expression of the free economic opportunity opening up before individual men without regard to their inheritance or landed property. It has had no easy and smooth development. The principles which found their greatest verbal expression in our Declaration of Independence were hammered out in a long fight against old restrictions hindering the free movement of persons and the development of new productive forces.

Capitalist democracy has never been complete and consistent. Here in the United States it has, on the whole, been expanding, in spite of serious limitations and dangerous anti-democratic trends. Washington and Jefferson and many of their associates deplored the existence of slavery as a hideous blot on American democracy. When this was later wiped out in the Civil War, equal democratic rights were supposedly assured to all men without regard to "race, color, or previous condition of servitude." But the fourteenth and fifteenth amendments to our federal constitution are still violated by those southern states which indirectly but effectively exclude Negro citizens from full and equal participation in political life. And throughout the nation the Negro people face almost impassable barriers to

full and equal economic opportunity. Barriers are set up also against other minority groups, but against Negroes the restrictions are most serious and most general.

Even among white men the right of suffrage was not freed from all property restrictions until organized workers took up the fight early in the nineteenth century. And today many small farmers and poorly paid wage workers (both Negro and white) are still in fact excluded from voting by poll-tax laws in seven southern states. Only since 1920 have women in all states enjoyed the same suffrage rights as men.

Capitalist democracy recognizes also the workers' right to organize and strike for better conditions of living and working. And our greatest leaders, Jefferson and Lincoln, stated explicitly that true democracy includes the right of the people to make revolutionary changes in the political and economic structure.

Socialist democracy, in the Soviet Union where the class basis of political conflict has been abolished, is more positive and constructive than capitalist democracy. It includes not only mass participation in government and in the management of industry but also the basic universal right to work, the right to paid vacations, and the right to maintenance in old age and in time of sickness or incapacity.

The Atlantic Charter drafted by Churchill and Roosevelt in the summer of 1941 attempted to proclaim as a part of capitalist democracy the "assurance that all the men in all the lands may live out their lives in freedom from fear and want." But the futility of such pious wishes within the capitalist framework has already been made pretty clear by the growth of post-war unemployment and the stiff political resistance to slight improvements in our totally inadequate provisions for social insurance.

Divergent class interests, which in capitalist democracies find political expression in conflicting parties, simply do not exist in a socialist nation. The tiny counter-revolutionary groups which attempted some years ago to destroy socialism were opposed by the great majority of Soviet citizens. Now the fire of war has revealed the indestructible unity of the Soviet people. It has

burned away the veil of hostile propaganda which concealed from most American eyes the reality of Soviet democracy.

The war has also revealed more clearly the true nature of fascism as a violent political dictatorship, dominated by the most reactionary elements in the capitalist world. In our country we can identify the fascist trends and the deliberate effort of certain powerful interests to magnify popular prejudices and break down our democratic unity. Such men as Sewell Avery, Tom Girdler, and Joseph N. Pew in the industrial world; Robert McCormick, William Randolph Hearst, and Frank Gannett in the newspaper world; and Coughlin, Pegler, Lawrence Dennis, and Gerald L. K. Smith as speakers and writers, have been doing their best to undermine the principles of democracy on which our country was founded. They set white men against Negroes; Protestants against Catholics; Christians against Jews; farmers against workers. They do their utmost to divide and undermine the labor movement. They use an illogical mixture of slander, distortion, ridicule, and fear in their effort to isolate the Communists from their fellow-citizens. Then they label as Communist everyone who does a competent and effective job in the service of democracy.

Our victory over fascism is by no means won. Forces of the working class and of all others genuinely concerned in achieving the broadest political and economic democracy are sharply opposed by the forces of monopoly and by other spokesmen for capitalist property.

Fascist trends, limiting our political democracy and threatening to undermine our basic freedoms, are inherent in the monopoly stage of capitalist development. They take shape in opposition to the workers' movement as this develops in strength and political understanding. They become more cruelly insistent as finance capital tries to defend itself—at the workers' expense—against the increasingly frequent and severe economic crises.

In the crucial struggle against fascist trends, the working

class has the most basic role to play. For it is the workers who are thrown out of jobs when production is cut. It is they who suffer when weekly "take-home" pay is reduced. And it is the workers who are learning from their life under capitalism the meaning of class solidarity and the habit of common effort to defend democratic rights.

## X. SOCIALISM: THE NEXT STEP

From the beginning of history, prophets and poets have dreamed of a good society, a world without cruelty and exploitation, a world of peace and brotherhood where all men work together for the common good. Their dreams have reflected earlier stages of economic development. Some found expression in utopian experiments for which small groups withdrew from the main currents of human life. But sooner or later these were destroyed by their very separateness from the technical and social progress of the race.

One hundred years ago, Karl Marx and Frederick Engels began to present a new and very different approach to the dream of a good society. They were not alone in seeing the tremendous possibilities of technical progress under capitalism toward the mastery of natural forces. They were not alone in hating the greedy accumulation of private wealth and the capitalists' hard indifference to the poverty and insecurity of the workers. But they took the lead in showing that capitalism would create for the first time in human history the objective conditions for broad human advance to a social order free of exploitation.

Now more than half a century after the death of Marx and Engels, with socialism already deeply rooted in the vast Soviet Union, history has given us the perspective to see more clearly

than ever the truth of the Marxist analysis. Capitalism has prepared the technical basis for material abundance. It has separated the ownership of industry from the work of management. It has brought together large groups of wage workers and has almost eliminated the small producers. And under capitalism these masses of workers have learned to work together and to struggle together against low wages, long hours, and desperate periods of unemployment. From this struggle there develops the working-class solidarity which must take the lead in building socialism.

At the same time, the international monopolies and political empires of world capitalism have faced serious economic crisis. Only in war do they find a temporary solution of their problems, for only when rival powers are engaged in warfare or preparing for new conflicts do the capitalist industries of the present time have outlets for all the goods they are able to produce. And even when peacetime business was at its peak, several million workers were unemployed.

Capitalism has shown itself essentially unable to relate our productive capacity to the needs of the population. It is unable to provide steady peacetime employment for all the able-bodied workers. It is held back by chaotic production for profit and by the wasteful distribution of income to private owners of capital. Technically it has the possibility of producing abundance for all. But its inner contradictions leave capitalism helpless before the problems of mass poverty and unemployment. Before the Second World War, some four million American workers were unemployed even at the peak of production, and at the low point of the business cycle more than four times that number were out of work.

Capitalism has also ceased to be an essentially progressive force in the field of science. Only in warfare does our highly developed capitalist industry exert today a continuing and insistent pressure for further technical advance. In fact, so much money has been invested in huge industrial plants that corporations dread the effect of any basic technical changes which

would render their equipment prematurely obsolete. Some industries are dominated by tight little monopoly groups made up of a few corporations operating with friendly exchange of patents. Here they are often able to hold back new technical achievements without fear that a rival will introduce some unexpected change and underbid their product. Capitalism is not only unable to distribute all that it is equipped to produce, but it has become in some fields a serious brake on further peacetime technical progress.

Objective conditions are ripe for the next great step forward. Capitalism has laid the material foundations for socialism in the United States. And it has created problems for the capitalists themselves which they cannot solve without continuing wars and fascist tyranny. But those who have power and wealth will do everything they can to oppose the socialist solution. Such further progress will be achieved only when the majority of the workers in this country awaken to the follies and crimes of capitalism and realize the possibilities of genuine security, with a higher standard of living and truer democracy in a socialist America.

For more than a century, American workers have organized and struggled against overwork and underpayment. They have watched the accumulation of great fortunes and the fading of the myth that any worker can become a capitalist. They have carried on stubborn strikes against the most powerful corporations and they realize that the corporations have had the agents of law at their disposal. Gradually the workers have begun to organize politically not only for their own protection but to curb the corrupt and unjust practices of big business.

In the crisis of the 1930's, workers learned more of the bitter realities of American capitalism when seventeen million workers had no jobs while nearly a million persons were receiving incomes ranging from three thousand to over a million dollars a year. Workers' demands for some unemployment insurance were met by a most meager system of so-called social security, which allows just enough to exist and not one penny more.

Then during the Second World War, when (temporarily) all able-bodied men were either in the army or at work, wages rose to new high levels both in wage rates and in weekly take-home pay. But even in such a period, at least one-fourth of the total income payments to individuals were received by a small minority of the population solely on the basis of property ownership. Workers are already well aware that those who produce the material goods of life are supporting a wealthy class whose incomes bear no direct relation to effort and achievement, intellectual attainments, or incidental contributions to social welfare.

One country in the world has advanced to socialism. Its people are released from poverty and unemployment. And there no man or woman of normal vigor lives idly upon the fruits of other men's labor. But a steady barrage of anti-Soviet lies has concealed from most of the American workers the truth about that great nation.

Full realization of our need for socialism in the United States will develop slowly. A hundred years ago, this country was more truly a land of opportunity for the poor man (if he had a white skin) than were the older countries of Europe. This legend of universal freedom to climb from poverty to riches would have died long since but for the skillful and corrupt propaganda for "free enterprise" with which press and radio are saturated. Since the First World War workers' organizations have reached a new stage of development, more class conscious than before as to their immediate struggles. But the workers' understanding of their own situation has been blurred not only by propaganda for capitalism but by persistent misrepresentation of life in the one socialist country, the Soviet Union.

It is true, of course, that the Soviet workers achieved their transition to socialism in a country less industrially developed than our own. Before the revolution, the Russian workers' standard of living was far below that of workers in the United States. And only now, with their victory over Nazi Germany, can the Russian workers dream of directing their energy primarily to

improving their own conditions of living. For after the Revolution of 1917, when the active counter-revolutionary intervention was crushed, the Soviet people were fully aware of the continuing latent hostility of capitalist nations. They understood the vital importance of rapidly building their heavy industry to provide weapons of war and give the base for a long-drawn-out defense if their nation were attacked.

Now, unless the alliance of Great Britain and the United States with the USSR is destroyed by the forces of reaction, Soviet industry can be more generally directed toward the peacetime needs of the people. Progress will be slow, for the Soviet people face tremendous problems of rebuilding devastated areas. But they will be resuming the interrupted work of building modern schools and hospitals and dwellings adequate for the entire population. And with assurance of freedom from further hostile attack, the people of the USSR would soon have better homes, better food, better clothing than the workers in any other country.

Already they have been released from the specter of unemployment and the desperate anxieties which sickness and hard times bring to workers' families throughout the capitalist world.

Because the Soviet Union is a planned economy without private capital and without unemployment, the capitalists have built up a bogey of socialist tyranny and slavery to frighten the American people away from thoughts of socialism. But the truth is seeping through, about Soviet labor unions, about the workers' freedom and their share in the management of industry, about collective farming, and about the genuine social security enjoyed by the Soviet people.

Their Bill of Rights is no paper farce but the expression of a really new society. It summarizes the rights actually achieved by all the people in the first socialist nation. It is part of the Constitution adopted in 1936 after counter-revolutionary attacks against the new order had been defeated and the building of a socialist economy was well under way. It includes all the familiar civil rights developed by capitalist democracy, subject

only to the limitation that speech, press, assembly, and organization hostile to socialism is not permitted. In addition it stresses full equality of rights for all races and nationalities in economic, state, cultural, social, and political life.

To make real the equality of rights for men and women, the Constitution assures the working mother provision for child care and maternity leave. And the Soviet Union applies with all seriousness basic rights toward which only ineffective gestures have been attempted in capitalist countries:

Right to work.

Right to rest and leisure, including a limited working day and vacation with pay.

Right to maintenance in old age and in sickness or loss of capacity to work.

Right to education.

Only when the American workers have led us to socialism in this country can these rights be genuinely assured to every citizen of the United States.

## REFERENCE NOTES

1. See, for example, Frederick Engels, *The Peasant War in Germany*.
2. Karl Marx, *Capital*, Vol. I (New York: International Publishers, 1939), p. 745.
3. E. L. Bogart and D. L. Kemmerer, *Economic History of the American People*, 1942 ed., p. 61.
4. S. E. Morison and H. S. Commager, *The Growth of the American Republic*, 1942 ed., Vol. I, p. 75.
5. Bogart and Kemmerer, *op. cit.*, p. 205.
6. *Ibid.*, p. 97.
7. Herbert M. Morais, *The Struggle for American Freedom*, p. 106.
8. See V. I. Lenin, *Selected Works*, Vol. XII, especially pp. 307-10. Also Anna Rochester, *Lenin on the Agrarian Question*, Ch. V.
9. Engels on "Capital," p. 111.
10. Marx, *op. cit.*, Vol. I, p. 738.
11. *Ibid.*, p. 6.
12. *Ibid.*, p. 9.
13. *Ibid.*, pp. 11-13.
14. *Ibid.*, p. 527.
15. Horace B. Davis, *Labor and Steel*, pp. 74-81.
16. Labor Research Association, *Monopoly in the United States*, p. 16, with reference to Temporary National Economic Committee (75th Congress), Monograph No. 29.
17. Frederick Engels, *The Housing Question*, p. 40.
18. Claude G. Bowers, *Jefferson and Hamilton*, pp. 44 ff.
19. Marx, *op. cit.*, Vol. I, p. 779.
20. See Gustavus Myers, *History of the Great American Fortunes*, 1936 ed., especially pp. 95, 102, 116, 120.

21. *Ibid.*, especially pp. 213-72; also, article on "Land Grants" in *Encyclopedia of the Social Sciences*.
22. Brookings Institution, *America's Capacity to Produce*, pp. 165-70 and 560 ff.
23. *Ibid.*, p. 301.
24. Labor Research Association, *Monopoly in the United States*, with reference to T.N.E.C. (75th Congress), Monograph No. 21.
25. A. A. Berle and G. Means, *The Modern Corporation and Private Property*, pp. 93-95.
26. National Resources Committee, *The Structure of the American Economy*, Part I, pp. 160-63.
27. Bogart and Kemmerer, *op. cit.*, p. 529.
28. Morison and Commager, *op. cit.*, Vol. II, pp. 502-05.

## INDEX

Absolute rent, 51  
 Advertising, 46  
 Agriculture, 16, 65, 72; *see also* Farming  
 Annual wage, 37  
 Apprentices, 15, 23, 32  
 Artisans, 9, 13, 15, 17, 19, 22, 32  
 Atlantic Charter, 85  
  
 Banking, 41, 46, 70ff.  
  
 Capital, 35, 41, 43, 51f., 64; accumulation of, 52-60; investment of, 72f., 75f.  
 Cartels, 77f.  
 Class conflict, 7, 25, 38ff., 44, 66, 84f., 86, 89  
 Colonies, 73ff., 78; *see also* North American colonies  
 Commodity production, 18, 25-31  
 Communists, 83, 86  
 Competition, 42, 58, 67  
 Congress of Industrial Organizations, 37  
 Constant capital, 36, 44, 64  
 Contract labor, 32; *see also* Indentured servants  
 Contradictions of capitalism, 44, 61, 64ff., 88  
 Corporations, 47f., 56f., 68f.  
 Cost of production, 42  
 Crises, 56, 60-66, 88; general crisis, 64ff.  
  
 Democracy, 10, 80-87, 91f.  
 Differential rent, 51  
 Dividends, 48  
 Division of labor, 22, 24, 26, 33  
  
 Education, 25, 33  
 Eight-hour day, 39f.  
 Employment, part-time, 37; *see also* Unemployment  
 Exchange value, 26f., 36  
 Expenses of circulation, 46  
 Exploitation, rate of, 36f.  
  
 Farmers, 18, 48f., 63, 65  
 Farming, 12, 13f.; mechanized, 65; *see also* Agriculture  
 Fascism, 80-87  
 Federal legislation, 40, 56  
 Feudalism, 9f., 20, 21

Finance capital, 65, 66-80  
 Foreign investment, 67, 72, 75ff.  
 Foreign trade, 72  
 Freedom, under capitalism, 23f., 60, 80, 84ff., 90; under socialism, 91f.  
  
 Guilds, 9, 22, 23  
  
 Hours of labor, 36ff.  
 Housing, 49, 50  
  
 Income, from capital, 29, 40-52; distribution of, 58f., 89, 90  
 Income taxes, 59  
 Indentured servants, 12ff., 17  
 Industrial capitalism, beginnings of, 16, 17f., 22f.; and commodity production, 19, 26  
 Insecurity, 25; *see also* Unemployment  
 Intensity of labor, 39, 44f.  
 Interest, 21, 41, 47  
  
 Labor legislation, 39f.  
 Labor organization, 39f.  
 Labor power, value of, 33ff.  
 Labor, productivity of, 22, 33f., 36, 51, 65; unproductive, 45  
 Labor theory of value, 26ff., 33, 36  
 Land, 13, 14, 21f., 29, 41, 48f., 53f.; farm, 51; prices, 48  
 Large-scale industry, 55f.  
  
 Manufacture, 9f.  
 Manufacturing, 65, 72  
 Means of production, ownership of, 18, 21ff., 33, 41, 88; as social mechanism, 24, 26, 30f.  
 Mercantile profit, 46  
 Merchant capital, 10, 15, 19, 21, 22, 52  
 Money, 18, 20f., 30  
 Monopoly, 24, 30, 42f., 48, 50f., 57, 65, 66-80  
  
 Negroes, 12, 34, 84f., 86; *see also* Slavery  
 New England, 11, 13f., 15  
 New York, 14  
 North American colonies, 9, 12-17  
  
 Overtime pay, 37f.



- Peasants, 9f.  
 Pennsylvania, 14, 16  
 Poll-tax laws, 85  
 Poverty, 10, 17; under capitalism, 24, 64f., 87; rural, 22, 65  
 Price of production, 42  
 Prices, 13, 30, 32, 41f.  
 Productivity of labor, 22, 33f., 36, 51, 65  
 Profit, 31, 35, 40f., 57, 59; merchant, 19, 21, 32, 46; net profit, 48  
 Public debt, 53  
  
 Railroads, 53f., 71, 72  
 Rate of exploitation, 36f.  
 Rate of profit, 36, 41f.  
 Rate of surplus value, 36f.  
 Real estate, 51f.; *see also* Land  
 Rent, 20, 41, 48f.  
 Royalties, 48  
  
 Serfs, 10, 20, 21, 32  
 Shipbuilding, 16  
 Shipping, 23, 60  
 Shorter hours, struggle for, 38f., 44  
 Slavery, 11, 15, 20, 21, 31, 84  
 Slaves, 11, 13, 15  
 Socialism, 31, 79 87-92; democracy under, 85  
 Social security, 25, 63, 89  
 Socially necessary labor-time, 27f.  
 South, 12f., 15, 23, 84f.  
 Soviet Union, 66, 79f., 82f., 85, 90  
 Speed-up, *see* Intensity of labor  
 Stock trading, 58, 59  
 Stockholders, 48  
  
 Storage and value, 46  
 Surplus product, 31  
 Surplus value, 31-40, 40-52  
  
 Taxes, 41, 59  
 Technical progress, 7, 24, 27, 33, 42, 49, 63, 67f., 88  
 Trade, in North American colonies, 12f.  
 Trading, 9f., 18f., 66; *see also* Profit, merchant  
 Transportation and value, 46  
 Trusts, 57, 68f.  
 Turnover and profit, 45, 46  
  
 Unemployment, 25, 64, 88, 89; partial, 37  
 Unions, 37, 39f.  
 Universal equivalent, 30  
 Use value, 26f.  
 Usury, 21, 47  
  
 Value, 25-31  
 Variable capital, 35f., 64  
  
 Wage labor, 14, 15, 16, 18  
 Wage workers, 17, 23f., 25, 33f.; solidarity of, 88  
 Wages, 33-35, 37  
 Wealth, 12, 13, 17, 35, 58, 87  
 Women workers, 34f.  
 World War I, 40, 65f., 73, 75, 77f., 79, 80  
 World War II, 59, 78, 83f.  
  
 Yeomen, 10

# BOOKS ON ( ) T I C S

## WAGE-LABOUR AND CAPITAL VALUE, PRICE AND PROFIT

Karl Marx

These two brochures have served the labor movement for decades as invaluable texts on political economy. They are both an introduction and a popular outline of "Capital".

Cloth, in one volume, \$1.00; Paper, each, \$0.15

## IMPERIALISM, THE HIGHEST STAGE OF CAPITALISM

V. I. Lenin

Lenin's famous classic analyzing the operation of monopoly capitalism.

Cloth, \$1.00; Paper, \$0.30

## RULERS OF AMERICA: A Study of Finance Capital

Anna Rochester

The first comprehensive study of the financial monarchs of the United States and the extent of their control.

Trade, \$3.50; Popular, \$2.50

## WHY FARMERS ARE POOR: The Agricultural Crisis in the United States

Anna Rochester

A fundamental study of the farm problem in the United States by the author of "Rulers of America."

Trade, \$2.75; Popular, \$2.25

## LENIN ON THE AGRARIAN QUESTION

Anna Rochester

A detailed study of Lenin's chief writings on agrarian problems with a postscript on the American farm problem.

Trade, \$2.50; Popular, \$1.75

## POLITICAL ECONOMY AND CAPITALISM

Maurice Dobb

A study of Marxian economics by an outstanding British economist, including chapters on crises, imperialism, and economic planning.

\$3.00

## POLITICAL ECONOMY

A. Leontiev

A textbook of Marxian economics.

Trade, \$2.00; Popular, \$1.75

INTERNATIONAL PUBLISHERS

381 FOURTH AVENUE, NEW YORK